

**CASE**

**NUMBER:**

99-412

IN THE MATTER OF THE APPLICATION FOR THE ASSUMPTION OF  
SECURITIES BY GRAYSON RURAL COOPERATIVE CORPORATION

SEQ NBR	ENTRY DATE	REMARKS
0001	09/24/1999	Application.
0002	10/05/1999	Acknowledgement letter.
0003	10/28/1999	Def. letter, info due 11/12
M0001	11/12/1999	DON COMBS GRAYSON RECC-RESPONSE TO FILING DEF NOTED IN THE COMM CORRESPONDENCE OF OCT 28,99
0004	12/01/1999	2nd def. letter; info due 12/16
M0002	12/14/1999	DON COMBS GRAYSON RECC-RESPONSE TO FILING DEFICIENCIES
0005	01/05/2000	Def. cured letter
0006	01/14/2000	Order scheduling 1/25 informal conference
M0003	01/19/2000	DON COMBS GRAYSON RECC-REQUEST FOR PSC TO RESCHEDULE INFORMAL CONFERENCE TO JAN 25,00
0007	01/24/2000	Order rescheduling the time of 1/25 informal conference from 1:30 to 10:00 a.m.
0008	01/27/2000	Informal Conference Memorandum
M0004	02/04/2000	GRAYSON RECC CAROL FRALEY-REPLY TO INFORMAL CONFERENCE MEMO DATED JAN 27,00
0009	02/09/2000	Order entered; extends financing 60 days
0010	03/22/2000	FINAL ORDER; GRAYSON AUTHORIZED TO GUARANTEE LOANS FOR GEOTHERMAL SYSTEMS & ETS



COMMONWEALTH OF KENTUCKY  
**PUBLIC SERVICE COMMISSION**  
211 SOWER BOULEVARD  
POST OFFICE BOX 615  
FRANKFORT, KY. 40602  
(502) 564-3940

CERTIFICATE OF SERVICE

RE: Case No. 1999-412  
GRAYSON R.E.C.C.

I, Stephanie Bell, Secretary of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the following by U.S. Mail on March 22, 2000.

Parties of Record:

Carol H. Fraley  
President and CEO  
Grayson R.E.C.C.  
109 Bagby Park  
Grayson, KY. 41143

Mr. Don M. Combs  
Manager of Finance & Administration  
Grayson Rural Electric Cooperative  
Corporation  
109 Bagby Park  
Grayson, KY. 41143 1292

*Stephanie D. Bell*

Secretary of the Commission

SB/sa  
Enclosure

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR THE ASSUMPTION OF )  
SECURITIES BY GRAYSON RURAL ELECTRIC ) CASE NO. 99-412  
COOPERATIVE CORPORATION )

O R D E R

On December 14, 1999, Grayson Rural Electric Cooperative Corporation ("Grayson") filed an application seeking authorization to guarantee the financing by local banks of geothermal heat pump ("geothermal") systems and Electric Thermal Storage ("ETS") units purchased and installed in members' homes.<sup>1</sup> An informal conference was held at the Commission's offices on January 25, 2000 in order to clarify information contained in Grayson's application. All information requested from Grayson at the informal conference has been provided.

Grayson indicates that the promotion of the geothermal and ETS alternatives was related to the efforts of its generation and transmission cooperative, East Kentucky Power Cooperative, Inc. ("East Kentucky"), in developing demand-side management ("DSM") options for its member cooperatives. Grayson notes that a neighboring investor-owned utility has been promoting similar DSM-related programs. Grayson also states that East Kentucky has done extensive research related to the use of geothermal

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<sup>1</sup> Grayson submitted its application on September 24, 1999; however, there were numerous filing deficiencies. Grayson submitted additional information to correct the deficiencies on November 12, 1999 and December 14, 1999. The Commission notified Grayson by letter on January 5, 2000, that all filing deficiencies were corrected, and the application was considered filed as of December 14, 1999.

systems and ETS units, provides this information to the member cooperatives, and shares in the cost of promoting these alternatives.

Grayson started its loan guarantee program in 1995. Grayson, in conjunction with two local banks, guaranteed payment to the banks on loans for geothermal systems and ETS units. The Commission became aware of this loan guarantee program during Grayson's last general rate case, Case No. 98-455.<sup>2</sup> In the July 8, 1999 Order in that case, the Commission found that Grayson's loan guarantee program had not been approved as required by KRS 278.300(1),<sup>3</sup> and directed Grayson to suspend the program until such time as it received authorization from the Commission to guarantee these loans.<sup>4</sup>

In its arrangements with the local participating banks, Grayson indicated that it was only interested in guaranteeing those loans which the banks were willing to make based upon the banks' own evaluation of the borrower's credit. The banks process the financing applications and do all financial evaluations. The loan term and applicable interest rates are specified in the guaranty agreements that Grayson signs. Grayson will guarantee geothermal system loans up to \$5,000 and ETS unit loans up to \$1,000. Grayson provided a schedule showing that since the beginning of this program, it has guaranteed geothermal system and ETS units loans with a total face value of

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<sup>2</sup> Case No. 98-455, Application of Grayson Rural Electric Cooperative Corporation for an Adjustment of Rates, final Order issued July 8, 1999.

<sup>3</sup> KRS 278.300(1) states "No utility shall issue any securities or evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person until it has been authorized so to do by order of the commission."

<sup>4</sup> Case No. 98-455, July 8, 1999 Order, at 18 and 27.

\$187,124.<sup>5</sup> Since the inception of the program, Grayson has paid one loan that was in default, and has negotiated a payment schedule with the defaulting member.

Grayson's board of directors has authorized both the loan guarantee program and the guarantee with each participating bank. Under this arrangement, the board of directors does not have to review and approve each loan guaranteed by Grayson. In conjunction with the loan guarantee program, Grayson performs an energy audit of the member's residence. Grayson will only guarantee loans where certified dealers have been used to install the geothermal or ETS equipment. Grayson has certified a group of dealers in its service territory who are qualified to install this equipment. The results of the energy audit, the specifics of the geothermal system or ETS unit installed, and a certificate of compliance are retained by Grayson for each loan guarantee.

After consideration of the evidence of record and being advised, the Commission finds that Grayson's request to authorize its loan guarantee program for geothermal systems and ETS units should be approved. Geothermal systems and ETS units constitute viable DSM alternatives, and it is appropriate for Grayson to encourage the use of such technologies. In structuring its loan guarantee program, Grayson has taken reasonable precautions to limit its potential exposure in the event of default by its members on these loans. The guarantee is limited to either \$1,000 or \$5,000, depending on the equipment involved, and Grayson has stated its reliance on the participating bank's evaluation of the member's credit-worthiness. Grayson has also

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<sup>5</sup> Information Requested at the January 25, 2000 Informal Conference, filed February 4, 2000, Tab 1. The \$187,124 represents the total amount of the loans, and not Grayson's potential exposure in the event of default.

taken steps to ensure the quality of the equipment installed by requiring the use of certified equipment dealers.

To properly monitor this loan guarantee program, which is the first one approved for an electric cooperative, the Commission will require Grayson to include as part of its annual report an updated copy of the schedule filed under Tab 1 in its response to information requested at the informal conference.<sup>6</sup> This schedule should reflect the status of the loan guarantee program as of the end of the calendar year. In addition, Grayson should include with its annual report a listing of all loans that have gone into default, the amount Grayson was obligated to pay in conjunction with each default, and a description of the collection arrangements it has undertaken with regard to each default. Finally, Grayson should inform the Commission in advance of any significant changes made to the loan guarantee program.

IT IS THEREFORE ORDERED that:

1. Grayson is authorized to guarantee loans for geothermal systems and ETS units, subject to the terms and conditions described in its application.
2. Grayson shall file with its annual report a schedule detailing the status of the loan guarantee program and a listing of those loans that have gone into default, as described herein.

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<sup>6</sup> This schedule shows the date of the loan, the participating bank, the last name of the borrower, the face amount of the loan, the term of the loan, the outstanding balance as of the reporting date, the status of the loan, the applicable interest rate, and the type of equipment purchased.

3. Grayson shall notify the Commission in writing of any significant changes proposed to the loan guarantee program within 30 days prior to the effective date of the proposed changes.

Done at Frankfort, Kentucky, this 22nd day of March, 2000.

By the Commission

ATTEST:

  
Executive Director

Should you have questions or need further information, please do not hesitate to call me.

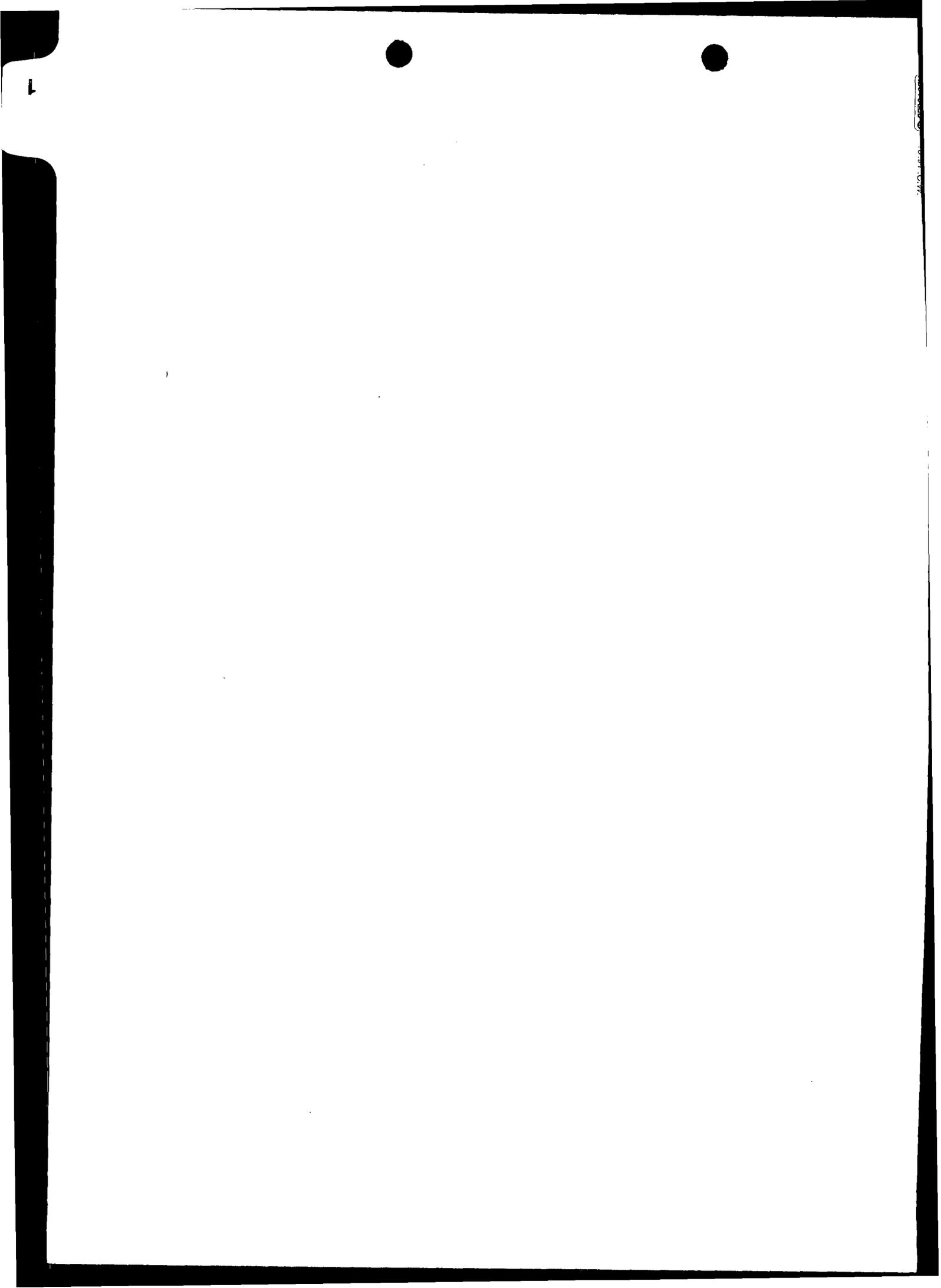
Sincerely,

GRAYSON RURAL ELECTRIC  
COOPERATIVE CORPORATION

A handwritten signature in cursive script that reads "Carol Hall Fraley". The signature is written in black ink and is positioned to the right of the typed name.

Carol Hall Fraley  
President & CEO

CHF/bcg







Grayson R. E. C. C.

Report of Installation

Customer Name: \_\_\_\_\_

Home Address \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_

Location of Installation: \_\_\_\_\_

Customer's Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Dealer Information

Dealer: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

**Description of Equipment Installed**

Brand \_\_\_\_\_

Serial # \_\_\_\_\_

Model # \_\_\_\_\_

COP \_\_\_\_\_

EER \_\_\_\_\_

Tons \_\_\_\_\_

Water Heating \_\_\_\_\_ yes \_\_\_\_\_ no \_\_\_\_\_

Cooling BTU's @ 50° \_\_\_\_\_

Heating BTU's @ 50° \_\_\_\_\_

New \_\_\_\_\_

Home \_\_\_\_\_

Existing \_\_\_\_\_

Modular/Double Wide \_\_\_\_\_

Commercial \_\_\_\_\_

Dealer's Signature \_\_\_\_\_

Date: \_\_\_\_\_

Dealer Incorporated: \_\_\_\_\_ yes \_\_\_\_\_ no

Tax Payer ID / Federal ID: \_\_\_\_\_  
or Social Security #

This installation is complete and has been inspected by \_\_\_\_\_

Date: \_\_\_\_\_

Financing: \_\_\_\_\_ yes \_\_\_\_\_ no

Bank \_\_\_\_\_

**Important: This form must be completed by the dealer in order to participate in the Geothermal Program**

Grayson R. E. C. C.

Report of Installation

Customer Name: [REDACTED]

Home Address Ret Port 249

City: Meriden State: CT Zip: 06450

Location of Installation: \_\_\_\_\_

Customer's Signature: Diana Mayo

Date: 7/10/97

Dealer Information

Dealer: Baldwin & Jones H + C

Address: P.O. Box 192 Meriden, CT 06450

Phone: 800-443-7197

Description of Equipment Installed

Brand ClimateMaster

Serial # VPO48655JLTPDSC / HE24655JLSDDSC

Model # 97D099519 97D089423

COP 4.0 3.8

EER 20.4 18

Tons 4/2

Water Heating \_\_\_\_\_ yes  no \_\_\_\_\_

Cooling BTU's @ 50° 56,320 / 28,900

Heating BTU's @ 50° 47,480 / 24,600

New

Home  AS

Existing \_\_\_\_\_

Modular/Double Wide \_\_\_\_\_

Commercial \_\_\_\_\_

Dealer's Signature David Bays

Date: 7-23-97

Dealer Incorporated:  yes  no

Tax Payer ID / Federal ID: 405-66-5260  
or Social Security #

This installation is complete and has been inspected by Tina Preece

Date: 7-22-97

Financing:  yes  no

Bank Commercial Bank of Hayden

**Important: This form must be completed by the dealer in order to participate in the Geothermal Program**

2/

6'8"

door

11'10"

2'8"

~~6'3"~~  
~~6'9"~~

Door 371

1'3"

1'5"

1'3"

free

1'3"

53ft to garage

11'10" x 5'5" level

16'43"  
20'11"  
3'43"  
1'53"  
1'13"

5'6"

door to garage

34'3"

6'9" x 5'3"

35'4"

11'0" x 3'

2'04"

2'8"

4'3" x 2' window

5'4" x 5'3"

8'0" x 5'3"

6'8"

2'5" x 4'0"

3'5" insert

2'5"

2'8" x 5'3"

door 3'4" standard window 1'9" x 2'0"

12'7" x 5'11"

RIGHT-J SHORT FORM

7-10-97

DOUG MAYO  
RT 4 BOX 249  
GRAYSON

KY 41143

	Htg	Clg
Outside db	10	90
Inside db	72	75
Design TD	62	15
Daily Range	-	M
Inside Humid.	-	55
Grains Water	-	29

GRECC  
109 BAGBY PARK  
GRAYSON  
606 474-5136

KY 41143

Const. Quality	a
# of Fireplaces	0

HEATING EQUIPMENT

COOLING EQUIPMENT

A'DA'A'		Make	AOIOORI
sad[ofsa]		Model	FR769
Gas Furnace		Type	Split
Efficiency / HSPF	80.0	COP/EER/SEER	6.5
Input	85000 Btuh	Sensible Cooling	20000 Btuh
Output	68000 Btuh	Latent Cooling	7000 Btuh
Temp Rise	25 Deg F	Total Cooling	27000 Btuh
Heating Fan	2473 CFM	Actual Cooling Fan	2473 CFM
Flow Factor	0.031 CFM/Btuh	Clg Air Flow Factor	0.053 CFM/Btuh

Thermostat Heat/Cool Load Sensible Heat Ratio 87

NAME	AREA SQ. FT.	HTG BTUH	CLG BTUH	HTG CFM	CLG CFM
FLOOR	1742	43869	26636	1379	1424
FLOOR	1643	21773	13188	684	705
ROOM	354	6928	3765	218	201
	414	6096	2647	192	142
House	4153	78665	46236	2473	2473
ion Air		0	0		
1.00 RSM			46236		
ooling			6893		
	4153	78665	53130	2473	2473

# Electric Thermal Storage - Quality Assurance Information

## Payee Information Owner Renter

Name \_\_\_\_\_ S.S. No. \_\_\_\_\_  
Street Address \_\_\_\_\_ City \_\_\_\_\_  
State \_\_\_\_\_ Zip \_\_\_\_\_

## Occupant Information

Occupant Name (if different from above) \_\_\_\_\_  
Installation Address \_\_\_\_\_ City \_\_\_\_\_  
State \_\_\_\_\_ Zip \_\_\_\_\_ Permanent Service No. \_\_\_\_\_  
Billing Acct. No. \_\_\_\_\_ ETS Acct. No. \_\_\_\_\_

## Dwelling Information

Single Story  Two Story  Manufactured  Other \_\_\_\_\_  
 New Home  Existing Home Basement \_\_\_\_Yes \_\_\_\_No Total Square Footage \_\_\_\_\_

## Heat System(s) Used Last Winter (check all that apply)

aahp  geothermal  electric furnace  ceiling cable  baseboard  
 fuel oil  LP  natural gas  wood/coal  kerosene  other \_\_\_\_\_

## Heat System(s) To Be Used With ETS (check all that apply)

aahp  geothermal  electric furnace  ceiling cable  baseboard  
 fuel oil  LP  natural gas  wood/coal  kerosene  other \_\_\_\_\_

## ETS Unit Information

1. Manufacturer \_\_\_\_\_ Serial No. \_\_\_\_\_  
kW \_\_\_\_\_ Location \_\_\_\_\_ Sq. Ft. of Zone \_\_\_\_\_  
2. Manufacturer \_\_\_\_\_ Serial No. \_\_\_\_\_  
kW \_\_\_\_\_ Location \_\_\_\_\_ Sq. Ft. of Zone \_\_\_\_\_  
3. Manufacturer \_\_\_\_\_ Serial No. \_\_\_\_\_  
kW \_\_\_\_\_ Location \_\_\_\_\_ Sq. Ft. of Zone \_\_\_\_\_

## Installer Information

Installer Rep or Company \_\_\_\_\_ Phone \_\_\_\_\_ Date of Completion \_\_\_\_\_

## Cooperative Approval

*I hereby certify that an inspection of the installed equipment has been made. A Quality Assurance payment of \$\_\_\_\_\_ will be made by our cooperative.*

Co-op Representative \_\_\_\_\_ Co-op Name \_\_\_\_\_ Date \_\_\_\_\_

## EKPC Use Only:

Date Rec'd. \_\_\_\_\_ Incentive Pmt. \_\_\_\_\_ Transfer Pmt. \_\_\_\_\_

Approved By \_\_\_\_\_

# Geothermal Program - Quality Assurance Information

New - geothermal only     Retrofit     All-Seasons Comfort Home

**Employee Information**     Owner     Renter     Builder     Developer

Name \_\_\_\_\_ S.S. No. \_\_\_\_\_  
Street Address \_\_\_\_\_ City \_\_\_\_\_  
State \_\_\_\_\_ Zip \_\_\_\_\_

## Occupant Information

Occupant Name (if different from above) \_\_\_\_\_  
Installation Address \_\_\_\_\_ City \_\_\_\_\_  
State \_\_\_\_\_ Zip \_\_\_\_\_  
Permanent Service No. \_\_\_\_\_ Billing Acct. No. \_\_\_\_\_

## Dwelling Information

Heating System-Replacement if Existing or Other Choice if New Installation

(Place "1" next to primary and "2" next to secondary system)

aahp     geothermal     electric furnace     ceiling cable     baseboard     wall  
 fuel oil     LP     natural gas     wood/coal     other \_\_\_\_\_

## Air Conditioning System (check all that apply in replacement of other system)

None     Central     Window units    How many? \_\_\_\_\_

## Ductwork Information

Existing     New    Insulated?    R-Value? \_\_\_\_\_

## Foundation Type

Unheated Basement     Heated Basement     Slab     Crawl Space

## Insulation Data

\_\_\_\_\_ Floor    \_\_\_\_\_ Ceiling    \_\_\_\_\_ Cathedral    \_\_\_\_\_ Wall    \_\_\_\_\_ Slab Perimeter    \_\_\_\_\_ Basement Wall

## Home Type

Single Story     Two Story     Other \_\_\_\_\_    Sq. Ft. \_\_\_\_\_

## Other Information

Age of Home (if existing) \_\_\_\_\_    Heat Loss (btu/hr.) \_\_\_\_\_    Heat Gain (btu/hr.) \_\_\_\_\_

## Geothermal System Information

Manufacturer \_\_\_\_\_    ARI Standard 325-85 Met?     Yes     No

Model No. \_\_\_\_\_    Serial No. \_\_\_\_\_

Tons \_\_\_\_\_    Heating Btus@ 50° \_\_\_\_\_    Cooling Btus@ 50° \_\_\_\_\_    Total Resistance Heat (kW) \_\_\_\_\_

COP \_\_\_\_\_    EER \_\_\_\_\_    WH provided by system?     Yes     No

( continued on reverse side )

**Loop Information**

**Vertical**

Pipe Length (ft.) \_\_\_\_\_ No. of Holes \_\_\_\_\_ Pipe Diameter (in.) \_\_\_\_\_  
Type of Pipe \_\_\_\_\_ Grouting?  Yes  No

**Horizontal**

Pipe Length (ft.) \_\_\_\_\_ No. of Pipes \_\_\_\_\_ Pipe Diameter (in.) \_\_\_\_\_  
Type of Pipe \_\_\_\_\_ Slinky?  Yes  No

**Pond**

Pipe Length/Ton (ft.) \_\_\_\_\_ No. of Coils \_\_\_\_\_ Pipe Diameter (in.) \_\_\_\_\_  
Type of Pipe \_\_\_\_\_

**Antifreeze Type**

Potassium Acetate (GS4)  Methanol  Propylene Glycol  Other \_\_\_\_\_

**Contractor Information**

Company \_\_\_\_\_ Contractor Representative \_\_\_\_\_  
Phone No. \_\_\_\_\_ Total System Cost \_\_\_\_\_ Date of Completion \_\_\_\_\_

**Cooperative Approval**

*I certify that an inspection of the installed equipment and insulation standards, if applicable, has been made. The following quality assurance payment will be made by our cooperative. \$ \_\_\_\_\_*

Co-op Representative \_\_\_\_\_ Co-op Name \_\_\_\_\_ Date \_\_\_\_\_

**For EKPC Use Only:**

Date Rec'd. \_\_\_\_\_ Incentive Pmt. \_\_\_\_\_ Transfer Pmt. \_\_\_\_\_

Approved By \_\_\_\_\_

**Other Comments:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

# Geothermal Program - Quality Assurance Information

d.

New - geothermal only     Retrofit     All-Seasons Comfort Home

**Free Information**     Owner     Renter     Builder     Developer

Name \_\_\_\_\_ S.S. No. 406-84-3488

Street Address 874 Blvd 2477 City Maypm

State Maypm Zip \_\_\_\_\_

## Occupant Information

Occupant Name (if different from above) Same

Installation Address \_\_\_\_\_ City \_\_\_\_\_

State \_\_\_\_\_ Zip \_\_\_\_\_

Permanent Service No. \_\_\_\_\_ Billing Acct. No. 1656920032

## Dwelling Information

Heating System-Replacement if Existing or Other Choice if New Installation

(Place "1" next to primary and "2" next to secondary system)

aahp     geothermal     electric furnace     ceiling cable     baseboard     wall  
 fuel oil     LP     natural gas     wood/coal     other \_\_\_\_\_

## Air Conditioning System (check all that apply in replacement of other system)

None     Central     Window units    How many? \_\_\_\_\_

## Ductwork Information

Existing     New    Insulated? \_\_\_\_\_ R-Value? 4

## Foundation Type

Unheated Basement     Heated Basement     Slab     Crawl Space

## Insulation Data

19 Floor    38 Ceiling    \_\_\_\_\_ Cathedral    19 Wall    \_\_\_\_\_ Slab Perimeter    \_\_\_\_\_ Basement Wall

## Home Type

Single Story     Two Story     Other \_\_\_\_\_    Sq. Ft. 3180

## Other Information

Age of Home (if existing) New    Heat Loss (btu/hr.) 71,328    Heat Gain (btu/hr.) 48667

## Geothermal System Information

Manufacturer Climatemaster    ARI Standard 325-85 Met?  Yes     No

Model No. VPO 48G555 LT DPSC / HE 246555CS DPSC    Serial No. 970099519 / 970089423

Tons 4/2    Heating Btus@ 50° 47,480 / 24,600    Cooling Btus@ 50° 30,510 / 28,900    Total Resistance Heat (kW) 10/10

COP 4.0 / 3.8    EER 20.4 / 18    WH provided by system?  Yes     No

( continued on reverse side )

**Loop Information**

**Vertical**

Pipe Length (ft.) 1800 No. of Holes 6 Pipe Diameter (in.) 3/4"  
Type of Pipe PE Grouting?  Yes  No

**Horizontal**

Pipe Length (ft.) \_\_\_\_\_ No. of Pipes \_\_\_\_\_ Pipe Diameter (in.) \_\_\_\_\_  
Type of Pipe \_\_\_\_\_ Slinky?  Yes  No

**Pond**

Pipe Length/Ton (ft.) \_\_\_\_\_ No. of Coils \_\_\_\_\_ Pipe Diameter (in.) \_\_\_\_\_  
Type of Pipe \_\_\_\_\_

**Antifreeze Type**

Potassium Acetate (GS4)  Methanol  Propylene Glycol  Other \_\_\_\_\_

**Contractor Information**

Company Bop He Jun H+c Contractor Representative David M. Bays  
Phone No. 473-7197 Total System Cost N/A Date of Completion 6/18/97

**Cooperative Approval**

*I certify that an inspection of the installed equipment and insulation standards, if applicable, has been made. The following quality assurance payment will be made by our cooperative. \$ 1980*

Janet Hill Duff Co-op Representative Hayson Co-op Name 7/3/97 Date

**For EKPC Use Only:**

Date Rec'd. \_\_\_\_\_ Incentive Pmt. \_\_\_\_\_ Transfer Pmt. \_\_\_\_\_

Approved By \_\_\_\_\_

**Other Comments:**

TO: EKP  
7-3-97

**Loop Information**

**Vertical**

Pipe Length (ft.) \_\_\_\_\_ No. of Holes \_\_\_\_\_ Pipe Diameter (in.) \_\_\_\_\_  
Type of Pipe \_\_\_\_\_ Grouting?  Yes  No

**Horizontal**

Pipe Length (ft.) \_\_\_\_\_ No. of Pipes \_\_\_\_\_ Pipe Diameter (in.) \_\_\_\_\_  
Type of Pipe \_\_\_\_\_ Slinky?  Yes  No

**Pond**

Pipe Length/Ton (ft.) \_\_\_\_\_ No. of Coils \_\_\_\_\_ Pipe Diameter (in.) \_\_\_\_\_  
Type of Pipe \_\_\_\_\_

**Antifreeze Type**

Potassium Acetate (GS4)  Methanol  Propylene Glycol  Other \_\_\_\_\_

**Contractor Information**

Company \_\_\_\_\_ Contractor Representative \_\_\_\_\_  
Phone No. \_\_\_\_\_ Total System Cost \_\_\_\_\_ Date of Completion \_\_\_\_\_

**Cooperative Approval**

*I certify that an inspection of the installed equipment and insulation standards, if applicable, has been made. The following quality assurance payment will be made by our cooperative. \$ \_\_\_\_\_*

\_\_\_\_\_  
Co-op Representative Co-op Name Date

**For EKPC Use Only:**

Date Rec'd. \_\_\_\_\_ Incentive Pmt. \_\_\_\_\_ Transfer Pmt. \_\_\_\_\_

Approved By \_\_\_\_\_

**Other Comments:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

# Geothermal Program - Quality Assurance Information

New - geothermal only     Retrofit     All-Seasons Comfort Home

**Payee Information**     Owner     Renter     Builder     Developer

Name \_\_\_\_\_ S.S. No. \_\_\_\_\_

Street Address \_\_\_\_\_ City \_\_\_\_\_

State \_\_\_\_\_ Zip \_\_\_\_\_

## Occupant Information

Occupant Name (if different from above) \_\_\_\_\_

Installation Address \_\_\_\_\_ City \_\_\_\_\_

State \_\_\_\_\_ Zip \_\_\_\_\_

Permanent Service No. \_\_\_\_\_ Billing Acct. No. \_\_\_\_\_

## Dwelling Information

Heating System-Replacement if Existing or Other Choice if New Installation

(Place "1" next to primary and "2" next to secondary system)

aahp     geothermal     electric furnace     ceiling cable     baseboard     wall  
 fuel oil     LP     natural gas     wood/coal     other \_\_\_\_\_

## Air Conditioning System (check all that apply in replacement of other system)

None     Central     Window units    How many? \_\_\_\_\_

## Ductwork Information

Existing     New    Insulated?    R-Value? \_\_\_\_\_

## Foundation Type

Unheated Basement     Heated Basement     Slab     Crawl Space

## Insulation Data

\_\_\_\_\_ Floor    \_\_\_\_\_ Ceiling    \_\_\_\_\_ Cathedral    \_\_\_\_\_ Wall    \_\_\_\_\_ Slab Perimeter    \_\_\_\_\_ Basement Wall

## Home Type

Single Story     Two Story     Other \_\_\_\_\_    Sq. Ft. \_\_\_\_\_

## Other Information

Age of Home (if existing) \_\_\_\_\_    Heat Loss (btu/hr.) \_\_\_\_\_    Heat Gain (btu/hr.) \_\_\_\_\_

## Geothermal System Information

Manufacturer \_\_\_\_\_    ARI Standard 325-85 Met?     Yes     No

Model No. \_\_\_\_\_    Serial No. \_\_\_\_\_

Tons \_\_\_\_\_    Heating Btus@ 50° \_\_\_\_\_    Cooling Btus@ 50° \_\_\_\_\_    Total Resistance Heat (kW) \_\_\_\_\_

COP \_\_\_\_\_    EER \_\_\_\_\_    WH provided by system?     Yes     No

( continued on reverse side )

Dealer's Signature \_\_\_\_\_

Date: \_\_\_\_\_

Dealer Incorporated: \_\_\_\_\_ yes \_\_\_\_\_ no

Tax Payer ID / Federal ID: \_\_\_\_\_  
or Social Security #

This installation is complete and has been inspected by \_\_\_\_\_

Date: \_\_\_\_\_

Financing: \_\_\_\_\_ yes \_\_\_\_\_ no

Bank \_\_\_\_\_

**Important: This form must be completed by the dealer in order to participate in the Geothermal Program**

Grayson R. E. C. C.

Report of Installation

Customer Name: \_\_\_\_\_

Home Address \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_

Location of Installation: \_\_\_\_\_

Customer's Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Dealer Information

Dealer: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

**Description of Equipment Installed**

Brand \_\_\_\_\_

Serial # \_\_\_\_\_

Model # \_\_\_\_\_

COP \_\_\_\_\_

EER \_\_\_\_\_

Tons \_\_\_\_\_

Water Heating \_\_\_\_\_ yes \_\_\_\_\_ no \_\_\_\_\_

Cooling BTU's @ 50° \_\_\_\_\_

Heating BTU's @ 50° \_\_\_\_\_

New \_\_\_\_\_ Home \_\_\_\_\_

Existing \_\_\_\_\_ Modular/Double Wide \_\_\_\_\_

Commercial \_\_\_\_\_



COMMONWEALTH OF KENTUCKY  
**PUBLIC SERVICE COMMISSION**  
211 SOWER BOULEVARD  
POST OFFICE BOX 615  
FRANKFORT, KY. 40602  
(502) 564-3940

February 9, 2000

Carol H. Fraley  
President and CEO  
Grayson R.E.C.C.  
109 Bagby Park  
Grayson, KY. 41143

Mr. Don M. Combs  
Manager of Finance & Administration  
Grayson Rural Electric Cooperative  
Corporation  
109 Bagby Park  
Grayson, KY. 41143 1292

RE: Case No. 1999-412

We enclose one attested copy of the Commission's Order in  
the above case.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell  
Secretary of the Commission

SB/sa  
Enclosure

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR THE ASSUMPTION )  
OF SECURITIES BY GRAYSON RURAL ) CASE NO. 99-412  
ELECTRIC COOPERATIVE CORPORATION )

O R D E R

On September 24, 1999, Grayson Rural Electric Cooperative Corporation ("Grayson") applied to the Commission for authority to assume securities as required by KRS 278.300. After filing deficiencies were corrected, the application was filed as of December 14, 1999.

KRS 278.300(2) provides that the Commission shall have 60 days after filing to consider applications for authority to issue or assume securities or evidences of indebtedness unless it is necessary for good cause to continue the application. As the Commission has not completed its investigation of this matter, the Commission finds that good cause exists to continue the financing application beyond the 60-day period specified in KRS 278.300(2).

IT IS THEREFORE ORDERED that Grayson's application for authority to incur additional indebtedness is continued beyond the 60-day period specified in KRS 278.300(2).

Done at Frankfort, Kentucky, this 9th day of February, 2000.

By the Commission

ATTEST:

  
Executive Director

# Grayson Rural Electric Cooperative Corporation

109 Bagby Park ♦ Grayson, KY 41143-1292  
Telephone 606-474-5136 ♦ 1-800-562-3532 ♦ Fax 606-474-5862

RECEIVED  
FEB 04 2000  
PUBLIC SERVICE  
COMMISSION

February 4, 2000

Martin J. Huelsmann  
Executive Director  
Kentucky Public Service Commission  
PO Box 615  
Frankfort, KY 40602

RE: Case No. 999-412  
Geothermal and ETS Loan Guarantee Programs

Dear Mr. Huelsmann:

In reply to the informal Conference Memorandum dated January 27, 2000 we are submitting the following information:

1. In reference to exhibit five of our original application which shows the status of all loans guaranteed by this program, please note that the one loan in default was indeed paid by the Cooperative. Grayson Rural Electric Cooperative Corporation paid the First National Bank of Grayson \$3,260.99 on September 30, 1999. Since that time our attorney W. Jeffrey Scott has negotiated a payment schedule with Mr. Rucker of \$100 per month and his payments are current.
2. A copy of the certificate of compliance prepared for Commercial or First National Bank loans and a listing of documents accumulated by Grayson Rural Electric Cooperative Corporation in conjunction with a loan guarantee application.
  - a. Report of installation (see exhibit 1)
  - b. Floor plan and energy audit information
  - c. Heating cooling calculation
  - d. Quality Assurance Form
3. ETS Loans are made only through the First National Bank.
4. See exhibit 1 and 2 of the original application for agreements between the First National Bank and Grayson Rural Electric Cooperative Corporation and exhibit 3 for the agreement between the Commercial Bank and Grayson Rural Electric Cooperative Corporation. Exhibit 4 of the original application is the agreement between the Commercial Bank and dealers certified by Grayson Rural Electric Cooperative Corporation to install geothermal systems.



COMMONWEALTH OF KENTUCKY  
**PUBLIC SERVICE COMMISSION**  
730 SCHENKEL LANE  
POST OFFICE BOX 615  
FRANKFORT, KENTUCKY 40602  
www.psc.state.ky.us  
(502) 564-3940  
Fax (502) 564-3460

**Ronald B. McCloud, Secretary**  
**Public Protection and**  
**Regulation Cabinet**

**Martin J. Huelsmann**  
**Executive Director**  
**Public Service Commission**

**Paul E. Patton**  
**Governor**

January 27, 2000

Carol Hall Fraley, President and CEO  
Grayson Rural Electric Cooperative Corporation  
109 Bagby Park  
Grayson, Kentucky 41143

RE: Case No. 99-412  
Informal Conference Memorandum

Dear Ms. Fraley,

Attached is a memorandum covering the issues discussed at the informal conference held in this case on January 25, 2000. This memorandum is being filed as part of the record in this proceeding.

If Grayson has any comments or corrections it believes are necessary, please file those comments or corrections in writing no later than February 7, 2000. If you have any questions, please contact Isaac Scott of the Commission Staff at (502) 564-3940, extension 444.

Sincerely,

A handwritten signature in cursive script, appearing to read "Martin J. Huelsmann".

Martin J. Huelsmann  
Executive Director

cc: Case File No. 99-412  
Attachment

**INTRA-AGENCY MEMORANDUM**  
**KENTUCKY PUBLIC SERVICE COMMISSION**

**TO:** Case File No. 99-412  
Grayson Rural Electric Cooperative Corporation

**FROM:** Isaac S. Scott, Team Leader *Isaac S. Scott*

**DATE:** January 27, 2000

**RE:** Informal Conference of January 25, 2000

An informal conference was held at the Commission's offices on January 25, 2000, with representatives of Grayson Rural Electric Cooperative Corporation ("Grayson"). The purpose of this informal conference was to clarify information contained in Grayson's application for authority to guarantee the financing of loans to its members for geothermal heat pump systems ("geothermal") and electric thermal storage units ("ETS"). A list of the attendees is included with this memorandum as Attachment 1.

The Commission's January 14, 2000 Order provided a list of subjects to be discussed at the informal conference. Working from this list, Grayson began by the conference by describing how the program was beneficial to its members. It indicated that the promotion of the geothermal and ETS alternatives had been related to the efforts of its generation and transmission cooperative, East Kentucky Power Cooperative, Inc. ("East Kentucky"), in developing demand-side management ("DSM") options for its member cooperatives. Grayson also noted that a neighboring investor-owned utility had been promoting similar DSM-related programs. Grayson stated that East Kentucky had done a lot of research related to the use of geothermal and ETS, and made that information available to the member cooperatives. East Kentucky also shares in the cost of promoting these alternatives.

Grayson made inquiries of all the banks in its service territory to see if any were interested in a program where Grayson would guarantee a portion of the financing for geothermal and ETS. Only two banks were interested in becoming involved with the program: The Commercial Bank of Grayson ("Commercial") and First National Bank of Grayson ("First National"). Under the current arrangements, the banks process the financing applications and do all financial evaluations. Grayson has indicated to the banks they are only interested in guarantee those loans which the banks were willing to make based upon the banks' own evaluation of the borrower's credit. Grayson will guarantee geothermal financing up to \$5,000 and ETS financing up to \$1,000. The loan term and applicable interest rate are specified in the guaranty agreements that Grayson signs.

In conjunction with the guarantee program, Grayson performs an energy audit of the member's residence. In addition, Grayson will only guarantee loans where certified dealers have been used to install the equipment. Grayson has certified a group of dealers in its service territory who are qualified to install geothermal and ETS; currently approximately 10 dealers are certified. The results of the energy audit, the specifics of the geothermal or ETS installed, and a Certificate of Compliance are retained by Grayson as part of its files for the guarantee program.

Grayson's board of directors have authorized this program, and designated certain management personnel as authorized to sign the loan guarantees on Grayson's behalf. The authorizations apply to the guarantee with a particular bank, the board does not have to review and approve each loan guaranteed by Grayson. None of the board members serve on the governing boards of the two participating banks.

Grayson provided an updated version of Exhibit 5 of its application, which shows the status of all loans guaranteed by it under this program. While Grayson identified one loan in default, it reported that the member and the bank had worked out a repayment arrangement, and Grayson had not been called upon to make good on that loan. Grayson stated that the banks and the individual member usually will try to work out any problems concerning the payment status of the loans before coming to Grayson for any assistance or action. To date, Grayson has not been required to pay on any loan it has guaranteed. A copy of the updated Exhibit 5 is included with this memorandum as Attachment 2.

Grayson agreed to provide the following information to assist the Commission Staff in its analysis of the pending application:

- A copy of the Certificate of Compliance prepared for Commercial or First National loans.
- A listing of the documents accumulated by Grayson in conjunction with a loan guarantee application.
- A copy of the guaranty agreement used for ETS loans through Commercial, or a statement that ETS loans are only made through First National.
- Where applicable, a description of any documentation that may be different between Commercial and First National guaranty agreements.

Grayson indicated that it should be able to provide the additional information within the next few days.

Attachments

CASE NO. 99-412  
 GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION  
 INFORMAL CONFERENCE - JANUARY 25, 2000

NAME	WITH
<i>Dean Scott</i>	<i>PSC - Financial Analysis</i>
<i>Richard Ruff</i>	<i>PSC - Legal</i>
<i>Carol Hill Naley</i>	<i>Grayson RECC</i>
<i>Kim Bush</i>	<i>Grayson RECC</i>
<i>Don Guss</i>	<i>GRAYSON RECC</i>
MARTHA M. MORTON	PSC - ENGR.
<i>MARVIN C. GOFF, JR.</i>	<i>PSC - FINANCIAL ANALYSIS Division</i>
<i>Gary Forman</i>	<i>PSC - Fin. Analysis</i>





COMMONWEALTH OF KENTUCKY  
**PUBLIC SERVICE COMMISSION**

730 SCHENKEL LANE  
POST OFFICE BOX 615  
FRANKFORT, KY. 40602  
(502) 564-3940

January 24, 2000

Carol H. Fraley  
President and CEO  
Grayson R.E.C.C.  
109 Bagby Park  
Grayson, KY. 41143

Mr. Don M. Combs  
Manager of Finance & Administration  
Grayson Rural Electric Cooperative  
Corporation  
109 Bagby Park  
Grayson, KY. 41143 1292

RE: Case No. 1999-412

We enclose one attested copy of the Commission's Order in  
the above case.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell  
Secretary of the Commission

SB/sa  
Enclosure

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR THE ASSUMPTION OF )  
SECURITIES BY GRAYSON RURAL ELECTRIC ) CASE NO. 99-412  
COOPERATIVE CORPORATION )

O R D E R

On January 14, 2000, the Commission scheduled an informal conference with Grayson Rural Electric Cooperative Corporation ("Grayson") to seek clarification of information contained in Grayson's December 14, 1999 application. On January 20, 2000, Grayson filed a request to change the time of the informal conference from 1:30 p.m. to 10:00 a.m., Eastern Standard Time.

IT IS HEREBY ORDERED that the informal conference scheduled on January 25, 2000 will start at 10:00 a.m., Eastern Standard Time, rather than 1:30 p.m. as established by the Commission's January 14, 2000 Order.

Done at Frankfort, Kentucky, this 24th day of January, 2000.

By the Commission

ATTEST:

  
\_\_\_\_\_  
Executive Director



## **Grayson Rural Electric Cooperative Corporation**

109 Bagby Park ♦ Grayson, Kentucky 41143-1292  
Telephone: 606-474-5136 ♦ 1-800-562-3532 ♦ Fax: 606-474-5862

RECEIVED

JAN 19 2000

PUBLIC SERVICE  
COMMISSION

January 18, 2000

Mr. Martin J. Huelsmann, Jr.  
Executive Director  
Kentucky Public Service Commission  
730 Schenkel lane  
Post Office Box 615  
Frankfort, KY 40602

RE: Case No. 99-412

Dear Mr. Huelsmann:

Grayson Rural Electric Cooperative Corporation requests that the Commission re-schedule the informal conference ordered in your Order of January 14, 2000 to **January 25, 2000, at 10:00 a.m.**

Sincerely,

A handwritten signature in black ink, appearing to read "Don M. Combs".

Don M. Combs  
Manager Finance & Administration

***Owned by those we serve.***



COMMONWEALTH OF KENTUCKY  
**PUBLIC SERVICE COMMISSION**

730 SCHENKEL LANE  
POST OFFICE BOX 615  
FRANKFORT, KY. 40602  
(502) 564-3940

January 14, 2000

Carol H. Fraley  
President and CEO  
Grayson R.E.C.C.  
109 Bagby Park  
Grayson, KY. 41143

Mr. Don M. Combs  
Manager of Finance & Administration  
Grayson Rural Electric Cooperative  
Corporation  
109 Bagby Park  
Grayson, KY. 41143 1292

RE: Case No. 1999-412

We enclose one attested copy of the Commission's Order in  
the above case.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie J. Bell".

Stephanie Bell  
Secretary of the Commission

SB/sa  
Enclosure

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR THE ASSUMPTION OF )  
SECURITIES BY GRAYSON RURAL ELECTRIC ) CASE NO. 99-412  
COOPERATIVE CORPORATION )

O R D E R

The Commission, upon its own motion, HEREBY ORDERS that an informal conference is scheduled with Grayson Rural Electric Cooperative Corporation ("Grayson") for January 25, 2000, at 1:30 p.m., Eastern Standard Time, in Conference Room 1 in the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky. The purpose of the informal conference will be to seek clarification of information contained in Grayson's application, filed on December 14, 1999. Grayson should be prepared to answer questions about the following subjects:

1. The reason(s) why Grayson believes the loan guarantee program is a service it should be providing to its members.

2. The events that led to the initial establishment of the loan guarantee program in 1995. This subject will include any consultations or discussions Grayson had with the Kentucky Association of Electric Cooperatives, East Kentucky Power Cooperative, Inc., other surrounding cooperatives, the Rural Utilities Service, and Grayson's supplemental lenders.

3. Updating and expanding the information contained in Exhibit 5 of the application. Loan guarantee activity should be updated through December 31, 1999. For each loan listed, Grayson should be prepared to indicate whether the loan is for a

geothermal heat pump system or an electric thermal storage unit and the interest rate in effect.

4. Loans in default as of December 31, 1999 and the collection efforts undertaken by Grayson.

5. The role of Grayson's board of directors in the loan guarantee program.

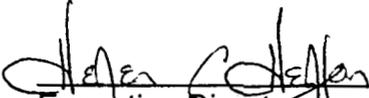
6. Any associations between members of Grayson's board of directors or its management and the Commercial Bank of Grayson or First National Bank of Grayson.

7. The terms and conditions contained in each loan document, Exhibits 1 through 4 of the application.

Done at Frankfort, Kentucky, this 14th day of January, 2000.

By the Commission

ATTEST:

  
Executive Director



COMMONWEALTH OF KENTUCKY  
**PUBLIC SERVICE COMMISSION**

730 SCHENKEL LANE  
POST OFFICE BOX 615  
FRANKFORT, KY. 40602  
(502) 564-3940

January 5, 2000

Carol H. Fraley  
President and CEO  
Grayson R.E.C.C.  
109 Bagby Park  
Grayson, KY. 41143

Mr. Don M. Combs  
Manager of Finance & Administration  
Grayson Rural Electric Cooperative  
Corporation  
109 Bagby Park  
Grayson, KY. 41143 1292

RE: Case No. 1999-412  
GRAYSON R.E.C.C.

The Commission staff has reviewed your response of December 14, 1999 and has determined that your application in the above case now meets the minimum filing requirements set by our regulations. Enclosed please find a stamped filed copy of the first page of your filing. This case has been docketed and will be processed as expeditiously as possible.

If you need further information, please contact my staff at 502/564-3940.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell  
Secretary of the Commission

SB/sa  
Enclosure



## **Grayson Rural Electric Cooperative Corporation**

109 Bagby Park ♦ Grayson, Kentucky 41143-1292  
Telephone: 606-474-5136 ♦ 1-800-562-3532 ♦ Fax: 606-474-5862

September 22, 1999

Ms. Helen C. Helton  
Executive Director  
Kentucky Public Service Commission  
731 Schenkel Lane  
Frankfort, KY 40601

Ms. Helton:

Please find attached Grayson Rural Electric Cooperative Corporation's application for the assumption of securities as required by KRS 278.300.

Feel free to contact me for additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Don M. Combs".

Don M. Combs  
Mgr - Finance & Administration

**FILED**

DEC 14 1999

PUBLIC SERVICE  
COMMISSION

**RECEIVED**

SEP 24 1999

PUBLIC SERVICE  
COMMISSION

*CASE 99-412*



## **Grayson Rural Electric Cooperative Corporation**

109 Bagby Park ♦ Grayson, Kentucky 41143-1292  
Telephone: 606-474-5136 ♦ 1-800-562-3532 ♦ Fax: 606-474-5862

December 13, 1999

Helen C. Helton  
Executive Director  
Kentucky Public Service Commission  
730 Schenkel Lane  
P O Box 615  
Frankfort, KY 40602

RECEIVED  
DEC 14 1999  
PUBLIC SERVICE  
COMMISSION

RE: Case No. 99-412

Dear Ms. Helton:

Please find attached five copies of responses to filing deficiencies noted in the Commission's correspondence of December 1, 1999.

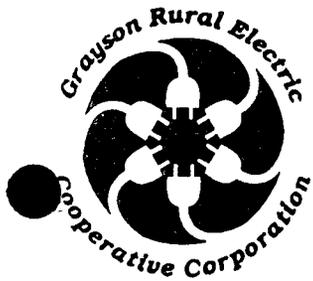
Tab 1	Detailed Income & balance Sheet
Tab 2	Articles of Incorporation
Tab 3	Mortgages or Trust Deeds

Sincerely,

A handwritten signature in black ink, appearing to read "Don M. Combs", with a long, sweeping horizontal line extending to the right.

Don M. Combs  
Manager of Finance & Administration

***Owned by those we serve.***



**Grayson Rural Electric Cooperative Corporation**

109 Bagby Park ♦ Grayson, Kentucky 41143-1292  
Telephone: 606-474-5136 ♦ 1-800-562-3532 ♦ Fax: 606-474-5862

RECEIVED  
DEC 14 1999  
PUBLIC SERVICE  
COMMISSION

December 13, 1999

Helen C. Helton  
Executive Director  
Kentucky Public Service Commission  
730 Schenkel Lane  
P O Box 615  
Frankfort, KY 40602

RE: Case No. 99-412

Dear Ms. Helton:

Please find attached five copies of responses to filing deficiencies noted in the Commission's correspondence of December 1, 1999.

Tab 1	Detailed Income & balance Sheet
Tab 2	Articles of Incorporation
Tab 3	Mortgages or Trust Deeds

Sincerely,

A handwritten signature in black ink, appearing to read "Don M. Combs", written over a horizontal line.

Don M. Combs  
Manager of Finance & Administration

RECEIVED  
DEC 14 1999  
PUBLIC SERVICE  
COMMISSION

Grayson Rural Electric Cooperative  
Balance Sheet  
31-Oct-99

ASSETS

Electric Plant		
In service	\$	35,147,617
Under construction	\$	141,581
Less accumulated depreciation	\$	(5,041,007)
Investments	\$	2,918,063
Current Assets:		
Cash and temporary investments	\$	166,880
Accounts receivable, net	\$	2,985,119
Material and supplies	\$	194,693
Prepayments	\$	41,305
Total Assets	\$	36,554,251

MEMBERS' EQUITIES AND LIABILITIES

Margins and Equities:		
Memberships	\$	134,500
Patronage capital	\$	9,765,489
Other equities	\$	91,786
Long Term Debt	\$	20,590,066
Accumulated Operating Provisions	\$	1,013,134
Current Liabilities		
Notes payable	\$	2,434,241
Accounts payable	\$	1,067,546
Consumer deposits	\$	873,216
Accrued expenses	\$	464,719
Consumer advances for construction	\$	119,554
Total Members' Equities and Liabilities	\$	36,554,251

Grayson Rural Electric Cooperative

**Statement of Operations**

October 31, 1999

Operating Revenue

Sale of electric energy	\$	12,949,751
Other electric revenue	\$	525,993
	\$	13,475,744

Operating Expenses

Cost of power	\$	7,727,546
Distribution - operations	\$	528,305
Distribution - maintenance	\$	955,504
Consumer accounts	\$	534,492
Consumer service	\$	83,419
Sales	\$	25,021
Administrative and general	\$	749,936

Total operation and maintenance \$ 10,604,223

Depreciation	\$	1,024,451
Taxes - property	\$	-
Taxes - other	\$	15,237
Interest on long term debt	\$	1,061,780
Other interest expense	\$	52,326
Other deductions	\$	158,588

Total cost of electric service \$ 12,916,605

Utility operating margins \$ 559,139

Non-operating margins, interest \$ 36,789

Non-operating margins, other \$ 22,543

Patronage capital:

G & T	\$	-
Others	\$	51,538

Net margins \$ 670,009

STATE OF KENTUCKY  
SCT  
COUNTY OF CARTER

I, Curt Ferguson, A Notary Public in and for the said county and state do hereby certify that this instrument of writing from L. C. White, A. G. Rice, F. A. Plummer, W. S. Bentley, I. E. Pelfrey, James Bryson, and John Lee Burton was this day produced to me by the above parties and was acknowledged by the said L. C. White, A. G. Rice, F. A. Plummer, W. S. Bentley, I. E. Pelfrey, James Bryson and John Lee Burton to be their act and deed.

Given under my hand and seal this \_\_\_\_ day of October 1950.  
My Commission expires: \_\_\_\_\_

Curt Ferguson  
Notary Public in and for  
Carter County, Kentucky

S E A L

In Testimony whereof the undersigned, W. G. Womack as President and James E. Lewis as Secretary of Grayson Rural Electric Cooperative Corporation subscribe their names this 26th day of July, 1975.

W. G. Womack  
President

Attest:  
James E. Lewis  
Secretary

State of Kentucky  
County of Carter

I, the undersigned, a notary public in and for the State of Kentucky, hereby certify that the foregoing amended Articles of Incorporation of Grayson Rural Electric Cooperative Corporation were this day produced to me in my office and acknowledged and delivered by W. G. Womack, President of Grayson Rural Electric Cooperative Corporation, and by James E. Lewis, Secretary of Grayson Rural Electric Cooperative Corporation, to be their free act and deed and the act and deed of said Corporation.

Given under my hand this 26th day of July, 1975.  
Bonita Womack, State at Large  
Notary Public  
My Commission Expires March 26, 1979

AMENDED ARTICLES OF INCORPORATION OF GRAYSON RURAL  
ELECTRIC COOPERATIVE CORPORATION

Pursuant to Section 279.050 and other applicable sections  
of the Kentucky Revised Statutes, the undersigned corporation  
adopts the following amendment to its Articles of Incorporation.

(1)

The name of the corporation is Grayson Rural Electric  
Cooperative Corporation.

(2)

The following Amendment of the Articles of Incorporation  
was adopted unanimously by the Board of Directors of the  
Corporation and the members thereof by a majority of said members  
at a meeting held July 16, 1975, and in the manner required by  
the laws of the State of Kentucky, to-wit:

Article II of the original Articles of Incorporation is  
hereby stricken from said original Articles.

The Articles of Incorporation of the Grayson Rural Electric  
Cooperative Corporation, as amended, shall read as follows:

ARTICLES OF INCORPORATION  
OF

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION.

The incorporators whose names are hereunto signed, being nat-  
ural persons and citizens of the Commonwealth of Kentucky, have  
executed these articles of incorporation for the purpose of  
forming a cooperative corporation not organized for pecuniary  
profit pursuant to the "Rural Electric Cooperative Corporation  
Act" which was passed by the General Assembly of Kentucky at  
Special Session, 1936, and approved on January 18, 1937, in  
accordance with the following provisions:

ARTICLE I.

The name of the Corporation shall be "Grayson Rural Electric  
Cooperative Corporation".

ARTICLE II.

The purpose or purposes for which the Corporation is formed are to promote and encourage the fullest possible use of electric energy in the Commonwealth of Kentucky by making electric energy available by production, transmission or distribution, or both, to or by otherwise securing the same for the inhabitants of and persons in areas of the Commonwealth of Kentucky at the lowest cost consistent with sound business methods and prudent management of the business of the Corporation and also by making available to the said inhabitants and persons electrical devices, equipment, wiring appliances, fixtures and supplies and all kinds of tools, equipment and machinery (including any fixtures or property or both which may by its use be conducive to a more complete use of electricity or electric energy) operated by electricity or electric energy and, without limiting the generality of the foregoing:

- (a) to generate, manufacture, purchase, acquire and accumulate electric energy for its members and non-members to the extent permitted by the Act under which the Corporation is formed and to transmit, distribute, furnish, sell and dispose of such electric energy to its members and non-members to the extent permitted by the Act under which the Corporation is formed, and to construct, erect, purchase, lease as lessee and in any manner acquire, own, hold, maintain, operate, sell, dispose of, lease as lessor, exchange and mortgage plants, buildings, works, machinery, supplies, apparatus, equipment and electric transmission and distribution lines or systems necessary, convenient or useful for carrying out and accomplishing any or all of the foregoing purposes;
- (b) to acquire, own, hold, use, exercise and, to the extent

permitted by law, to sell, mortgage, pledge, hypothecate and in any manner dispose of franchises, rights, privileges, licenses, rights of way and easements necessary, useful or appropriate to accomplish any or all of the purposes of the Corporation;

- (c) to purchase, receive, lease as lessee, or in any other manner acquire, own, hold, maintain, use, convey, sell, lease as lessor, exchange, mortgage, pledge or otherwise dispose of any and all real and personal property or any interest therein necessary, useful or appropriate to enable the Corporation to accomplish any or all of its purposes;
- (d) to assist its members to wire their premises and install therein electrical and plumbing appliances, fixtures, machinery, supplies, apparatus and equipment of any and all kinds and character (including, without limiting the generality of the foregoing, such as are applicable to water supply and sewage disposal) and, in connection therewith and for such purposes, to purchase, acquire, lease, sell, distribute, install and repair electrical and plumbing appliances, fixtures, machinery, supplies, apparatus and equipment of any and all kinds and character (including, without limiting the generality of the foregoing, such as are applicable to water supply and sewage disposal) and to receive, acquire, endorse, pledge, guarantee, hypothecate, transfer or otherwise dispose of notes and other evidences of indebtedness and all security therefor;
- (e) to borrow money, to make and issue bonds, notes and other evidences of indebtedness, secured or unsecured, for moneys borrowed or in payment for property ac-

quired, or for any of the other objects or purposes of the Corporation; to secure the payment of such bonds, notes or other evidences of indebtedness by mortgage or mortgages, or deed or deeds of trust upon, or by the pledge of or other lien upon, any or all of the property, rights, privileges or permits of the Corporation, wheresoever situated, acquired or to be acquired;

- (f) to do and perform, either for itself or its members, any and all acts and things, and to have and exercise any and all powers, as may be necessary or convenient to accomplish any or all of the foregoing purposes or as may be permitted by the Act under which the Corporation is formed, and to exercise any of its powers anywhere.

ARTICLE III.

The principal office of the Corporation shall be located at Grayson, in the County of Carter, Commonwealth of Kentucky.

ARTICLE IV.

The operations of the Corporation are to be conducted in the Counties of Carter, Elliott, Greenup, Lawrence, and Rowan, and in such other counties as such operations may from time to time become necessary or desirable in the interest of this Corporation or of its members.

ARTICLE V.

The number of directors of the Corporation shall be not less than five (5) nor more than eleven (11). Unless otherwise provided by the bylaws, the number of directors shall be seven (7).

ARTICLE VI.

The names and post office addresses of the directors who are to manage the affairs of the Corporation until the first annual meeting of the members or until their successors shall

have been elected and shall have qualified, are:

NAME	POST OFFICE ADDRESS.
L. C. White	Green, Kentucky
A. G. Rice	Newcombe, Kentucky
F. A. Plummer	Gesling, Kentucky
W. S. Bentley	Letitia, Kentucky
I. E. Pelfrey	Elliottville, Kentucky
James Bryson	Walsh, Kentucky
John Lee Burton	Blaine, Kentucky

ARTICLE VII.

The duration of the Corporation is: perpetual.

ARTICLE VIII.

Section 1. The Corporation shall have no capital stock, and the property rights and interests of each member shall be equal.

Section 2. Any person, firm, corporation or body politic may become a member in the Corporation by:

- (a) paying the membership fee specified in the bylaws;
- (b) agreeing to purchase from the Corporation electric energy as specified in the bylaws; and
- (c) agreeing to comply with and be bound by these articles of incorporation and the bylaws of the Corporation and any amendments thereto and such rules and regulations as may from time to time be adopted by the board of directors;

provided, however, that no person, firm, corporation or body politic shall become a member unless and until he or it has been accepted for membership by the board of directors or the members in the manner provided in the bylaws. No person, firm, corporation or body politic may own more than one (1) membership in the Corporation.

A husband and wife may jointly become a member and their

application for a joint membership may be accepted in accordance with the foregoing provisions of this section provided the husband and wife comply jointly with the provisions of the above subdivision (a), (b) and (c).

Section 3. Membership in the Corporation shall be terminated by death, cessation of existence, expulsion or withdrawal of the member as provided in the bylaws of the Corporation. Termination of membership in any manner shall not release the member or his estate from the debts or liabilities of such member to the Corporation.

Section 4. The private property of the members of the Corporation shall be exempt from execution for the debts of the Corporation and no member or incorporator shall be individually liable or responsible for any debts or liabilities of the Corporation.

Section 5. The bylaws of the Corporation may fix other terms and conditions upon which persons shall be admitted to and retain membership in the Corporation not inconsistent with these articles of incorporation or the Act under which the Corporation is organized.

ARTICLE IX.

Directors of the Corporation shall be members thereof.

ARTICLE X.

The Corporation may amend, alter, change or repeal any provision contained in these articles of incorporation in the manner now or hereafter prescribed by law.

IN WITNESS WHEREOF, we hereunto subscribe our names this \_\_\_\_\_ day of October, 1950.

\_\_\_\_\_  
L. C. White

\_\_\_\_\_  
A. G. Rice

\_\_\_\_\_  
F. A. Plummer

\_\_\_\_\_  
John Lee Burton

\_\_\_\_\_  
W. S. Bentley

\_\_\_\_\_  
I. E. Pelfrey

\_\_\_\_\_  
James Bryson

KENTUCKY 61-AA42 CARTER

**RESTATED MORTGAGE**

**AND**

**SECURITY AGREEMENT**

Made By And Among

**GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION,**  
Mortgagor

and

**UNITED STATES OF AMERICA**  
Mortgagee

and

**NATIONAL RURAL UTILITIES COOPERATIVE FINANCE  
CORPORATION,**  
Mortgagee

Dated as of June 3, 1996

THE MORTGAGOR, AS DEBTOR IS A TRANSMITTING UTILITY.

FUTURE ADVANCES AND FUTURE OBLIGATIONS ARE SECURED BY THIS INSTRUMENT.

PROCEEDS AND PRODUCTS OF COLLATERAL ARE COVERED BY THIS INSTRUMENT.

AFTER-ACQUIRED PROPERTY, BOTH REAL AND PERSONAL, ARE COVERED BY THIS  
INSTRUMENT.

THIS INSTRUMENT WAS PREPARED BY GEORGANN GUTTERIDGE, ATTORNEY,  
ELECTRIC AND TELEPHONE DIVISION, OFFICE OF THE GENERAL COUNSEL, UNITED  
STATES DEPARTMENT OF AGRICULTURE, WASHINGTON, D. C. 20250-1400.

Identified as form of document presented  
to and approved by the board of directors  
trustees of the above named corporation at  
a meeting held

JUNE 28, 1996

  
Secretary of Meeting

RESTMORT.v1e 5/2/96

RESTATED MORTGAGE AND SECURITY AGREEMENT, dated as of June 3, 1996 (hereinafter sometimes called this "Mortgage") is made by and among GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION (hereinafter called the "Mortgagor"), a corporation existing under the laws of the State of Kentucky, and the UNITED STATES OF AMERICA acting by and through the Administrator of the Rural Utilities Service (hereinafter called the "Government") and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION (hereinafter called "CFC") a corporation existing under the laws of the District of Columbia, and is intended to confer rights and benefits on both the Government and CFC, as well as any and all other lenders pursuant to Article II of this Mortgage that enter into a supplemental mortgage in accordance with Section 2.04 of Article II hereof (the Government and any such other lenders being herein sometimes collectively referred to as the "Mortgagees").

### RECITALS

WHEREAS, the Mortgagor, the Government and CFC are parties to that certain Supplemental Mortgage and Security Agreement dated as of September 1, 1972, as supplemented, amended or restated (the "Original Mortgage" identified in Schedule "A" of this Mortgage) originally entered into between the Mortgagor, the Government, acting by and through the Administrator of the Rural Electrification Administration, the predecessor of RUS, and CFC;

WHEREAS, the Mortgagor deems it necessary to borrow money for its corporate purposes and to issue its promissory notes and other debt obligations therefor from time to time in one or more series, and to mortgage and pledge its property hereinafter described or mentioned to secure the payment of the same;

WHEREAS, the Mortgagor desires to enter into this Mortgage pursuant to which all secured debt of the Mortgagor hereunder shall be secured on parity;

WHEREAS, this Mortgage restates and consolidates the Original Mortgage while preserving the priority of the Lien under the Original Mortgage securing the payment of Mortgagor's outstanding obligations secured under the Original Mortgage, which indebtedness is described more particularly by listing the Original Notes in Schedule "A" hereto; and

WHEREAS, all acts necessary to make this Mortgage a valid and binding legal instrument for the security of such notes and obligations, subject to the terms of this Mortgage, have been in all respects duly authorized;

NOW, THEREFORE, THIS MORTGAGE WITNESSETH: That to secure the payment of the principal of (and premium, if any) and interest on the Original Notes and all Notes issued hereunder according to their tenor and effect, and the performance of all provisions therein and herein contained, and in consideration of the covenants herein contained and the purchase or guarantee of Notes by the guarantors or holders thereof, the Mortgagor has mortgaged, pledged and granted a continuing security interest in, and by these presents does hereby grant, bargain, sell, alienate, remise, release, convey, assign, transfer, hypothecate, pledge, set over and confirm, pledge, and

grant a continuing security interest and lien in for the purposes hereinafter expressed, unto the Mortgagees all property, rights, privileges and franchises of the Mortgagor of every kind and description, real, personal or mixed, tangible and intangible, of the kind or nature specifically mentioned herein OR ANY OTHER KIND OR NATURE, except any Excepted Property, now owned or hereafter acquired by the Mortgagor (by purchase, consolidation, merger, donation, construction, erection or in any other way) wherever located, including (without limitation) all and singular the following:

#### GRANTING CLAUSE FIRST

- A. all of those fee and leasehold interests in real property set forth in Schedule "B" hereto, subject in each case to those matters set forth in such Schedule;
- B. all of the Mortgagor's interest in fixtures, easements, permits, licenses and rights-of-way comprising real property, and all other interests in real property, comprising any portion of the Utility System (as herein defined) located in the Counties listed in Schedule "B" hereto;
- C. all right, title and interest of the Mortgagor in and to those contracts of the Mortgagor
  - (i) relating to the ownership, operation or maintenance of any generation, transmission or distribution facility owned, whether solely or jointly, by the Mortgagor,
  - (ii) for the purchase of electric power and energy by the Mortgagor and having an original term in excess of 3 years,
  - (iii) for the sale of electric power and energy by the Mortgagor and having an original term in excess of 3 years, and
  - (iv) for the transmission of electric power and energy by or on behalf of the Mortgagor and having an original term in excess of 3 years, including in respect of any of the foregoing, any amendments, supplements and replacements thereto;
- D. all the property, rights, privileges, allowances and franchises particularly described in the annexed Schedule "B" are hereby made a part of, and deemed to be described in, this Granting Clause as fully as if set forth in this Granting Clause at length; and

ALSO ALL OTHER PROPERTY, real estate, lands, easements, servitudes, licenses, permits, allowances, consents, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same; all power sites, storage rights, water rights, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, waterways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water; all rights of way and roads; all plants for the generation of electric and other forms of energy (whether now known or hereafter developed) by steam, water, sunlight, chemical processes and/or (without limitation) all other sources of power (whether now known or hereafter developed); all power houses, gas plants, street lighting systems, standards and other equipment incidental thereto; all telephone, radio, television and other communications, image and data transmission systems, air conditioning systems and equipment incidental thereto, water wheels, waterworks, water systems,

steam and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, ice or refrigeration plants and equipment, offices, buildings and other structures and the equipment thereto, all machinery, engines, boilers, dynamos, turbines, electric, gas and other machines, prime movers, regulators, meters, transformers, generators (including, but not limited to, engine-driven generators and turbo generator units), motors, electrical, gas and mechanical appliances, conduits, cables, water, steam, gas or other pipes, gas mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, towers, overhead conductors and devices, underground conduits, underground conductors and devices, wires, cables, tools, implements, apparatus, storage battery equipment, and all other fixtures and personalty; all municipal and other franchises, consents, certificates or permits; all emissions allowances; all lines for the transmission and distribution of electric current and other forms of energy, gas, steam, water or communications, images and data for any purpose including towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith, and (except as hereinbefore or hereinafter expressly excepted) all the right, title and interest of the Mortgagor in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or employed in connection with any property hereinbefore described, but in all circumstances excluding Excepted Property;

#### **GRANTING CLAUSE SECOND**

All other property, real, personal or mixed, of whatever kind and description and wheresoever situated, including without limitation goods, accounts, money held in a trust account pursuant hereto or to a Loan Agreement, and general intangibles now owned or which may be hereafter acquired by the Mortgagor, but excluding Excepted Property, now owned or which may be hereafter acquired by the Mortgagor, it being the intention hereof that all property, rights, privileges, allowances and franchisees now owned by the Mortgagor or acquired by the Mortgagor after the date hereof (other than Excepted Property) shall be as fully embraced within and subjected to the lien hereof as if such property were specifically described herein.

#### **GRANTING CLAUSE THIRD**

Also any Excepted Property that may, from time to time hereafter, by delivery or by writing of any kind, be subjected to the lien hereof by the Mortgagor or by anyone in its behalf; and any Mortgagee is hereby authorized to receive the same at any time as additional security hereunder for the benefit of all the Mortgagees. Such subjection to the lien hereof of any Excepted Property as additional security may be made subject to any reservations, limitations or conditions which shall be set forth in a written instrument executed by the Mortgagor or the person so acting in its behalf or by such Mortgagee respecting the use and disposition of such property or the proceeds thereof.

#### **GRANTING CLAUSE FOURTH**

Together with (subject to the rights of the Mortgagor set forth on Section 5.01) all and singular the tenements, hereditaments and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and all the tolls, earnings, rents, issues, profits, revenues and other income, products and proceeds of the property subjected or required to be subjected to the lien of this Mortgage, and all other property of

any nature appertaining to any of the plants, systems, business or operations of the Mortgagor, whether or not affixed to the realty, used in the operation of any of the premises or plants or the Utility System, or otherwise, which are now owned or acquired by the Mortgagor, and all the estate, right, title and interest of every nature whatsoever, at law as well as in equity, of the Mortgagor in and to the same and every part thereof (other than Excepted Property with respect to any of the foregoing).

#### EXCEPTED PROPERTY

There is, however, expressly excepted and excluded from the lien and operation of this Mortgage the following described property of the Mortgagor, now owned or hereafter acquired (herein sometimes referred to as "Excepted Property"):

- A. all shares of stock, securities or other interests of the Mortgagor in the National Rural Utilities Cooperative Finance Corporation, CoBank, ACB, its predecessors in interest and the St. Paul Bank for Cooperatives other than any stock, securities or other interests that are specifically described in Subclause D of Granting Clause First as being subjected to the lien hereof;
- B. all rolling stock (except mobile substations), automobiles, buses, trucks, truck cranes, tractors, trailers and similar vehicles and movable equipment, and all tools, accessories and supplies used in connection with any of the foregoing;
- C. all vessels, boats, ships, barges and other marine equipment, all airplanes, airplane engines and other flight equipment, and all tools, accessories and supplies used in connection with any of the foregoing;
- D. all office furniture, equipment and supplies that is not data processing, accounting or other computer equipment or software;
- E. all leasehold interests for office purposes;
- F. all leasehold interests of the Mortgagor under leases for an original term (including any period for which the Mortgagor shall have a right of renewal) of less than five (5) years;
- G. all timber and crops (both growing and harvested) and all coal, ore, gas, oil and other minerals (both in place or severed);
- H. the last day of the term of each leasehold estate (oral or written) and any agreement therefor, now or hereafter enjoyed by the Mortgagor and whether falling within a general or specific description of property herein: PROVIDED, HOWEVER, that the Mortgagor covenants and agrees that it will hold each such last day in trust for the use and benefit of all of the Mortgagees and Noteholders and that it will dispose of each such last day from time to time in accordance with such written order as the Mortgagee in its discretion may give;
- I. all permits, licenses, franchises, contracts, agreements, contract rights and other rights not specifically subjected or required to be subjected to the lien hereof by the express provisions of this Mortgage, whether now owned or hereafter acquired by the Mortgagor, which by their

terms or by reason of applicable law would become void or voidable if mortgaged or pledged hereunder by the Mortgagor, or which cannot be granted, conveyed, mortgaged, transferred or assigned by this Mortgage without the consent of other parties whose consent has been withheld, or without subjecting any Mortgagee to a liability not otherwise contemplated by the provisions of this Mortgage, or which otherwise may not be, hereby lawfully and effectively granted, conveyed, mortgaged, transferred and assigned by the Mortgagor; and

J. the property identified in Schedule "C" hereto.

PROVIDED, HOWEVER, that (i) if, upon the occurrence of an Event of Default, any Mortgagee, or any receiver appointed pursuant to statutory provision or order of court, shall have entered into possession of all or substantially all of the Mortgaged Property, all the Excepted Property described or referred to in the foregoing Subdivisions A through H, inclusive, then owned or thereafter acquired by the Mortgagor shall immediately, and, in the case of any Excepted Property described or referred to in Subdivisions I through J, inclusive, upon demand of any Mortgagee or such receiver, become subject to the lien hereof to the extent permitted by law, and any Mortgagee or such receiver may, to the extent permitted by law, at the same time likewise take possession thereof, and (ii) whenever all Events of Default shall have been cured and the possession of all or substantially all of the Mortgaged Property shall have been restored to the Mortgagor, such Excepted Property shall again be excepted and excluded from the lien hereof to the extent and otherwise as hereinabove set forth.

However, pursuant to Granting Clause Third, the Mortgagor may subject to the lien of this Mortgage any Excepted Property, whereupon the same shall cease to be Excepted Property.

#### HABENDUM

TO HAVE AND TO HOLD all said property, rights, privileges and franchises of every kind and description, real, personal or mixed, hereby and hereafter (by supplemental mortgage or otherwise) granted, bargained, sold, aliened, remised, released, conveyed, assigned, transferred, mortgaged, encumbered, hypothecated, pledged, set over, confirmed, or subjected to a continuing security interest and lien as aforesaid, together with all the appurtenances thereto appertaining (said properties, rights, privileges and franchises, including any cash and securities hereafter deposited with any Mortgagee ((other than any such cash, if any, which is specifically stated herein not to be deemed part of the Mortgaged Property)), being herein collectively called the "Mortgaged Property") unto the Mortgagees and the respective assigns of the Mortgagees forever, to secure equally and ratably the payment of the principal of (and premium, if any) and interest on the Notes, according to their terms, without preference, priority or distinction as to interest or principal (except as otherwise specifically provided herein) or as to lien or otherwise of any Note over any other Note by reason of the priority in time of the execution, delivery or maturity thereof or of the assignment or negotiation thereof, or otherwise, and to secure the due performance of all of the covenants, agreements and provisions herein and in the Loan Agreements contained, and for the uses and purposes and upon the terms, conditions, provisos and agreements hereinafter expressed and declared.

SUBJECT, HOWEVER, to Permitted Encumbrances (as defined in Section 1.01).

## ARTICLE I

### DEFINITIONS & OTHER PROVISIONS OF GENERAL APPLICATION

#### Section 1.01. Definitions.

In addition to the terms defined elsewhere in this Mortgage, the terms defined in this Article I shall have the meanings specified herein and under the UCC, unless the context clearly requires otherwise. The terms defined herein include the plural as well as the singular and the singular as well as the plural.

Accounting Requirements shall mean the requirements of any system of accounts prescribed by RUS so long as the Government is the holder, insurer or guarantor of any Notes, or, in the absence thereof, the requirements of generally accepted accounting principles applicable to businesses similar to that of the Mortgagor.

Additional Notes shall mean any Government Notes issued by the Mortgagor to the Government and any Notes issued by the Mortgagor to any other lender, in either case pursuant to Article II of this Mortgage, including any refunding, renewal, or substitute Notes or Government Notes which may from time to time be executed and delivered by the Mortgagor pursuant to the terms of Article II.

Board shall mean either the Board of Directors or the Board of Trustees, as the case may be, of the Mortgagor.

Business Day shall mean any day that the Government is open for business.

Debt Service Coverage Ratio ("DSC") shall mean the ratio determined as follows: for each calendar year add

- (I) Patronage Capital or Margins of the Mortgagor,
- (ii) Interest Expense on Total Long Term Debt of the Mortgagor (as computed in accordance with the principles set forth in the definition of TIER) and
- (iii) Depreciation and Amortization Expense of the Mortgagor, and divide the total so obtained by an amount equal to the sum of all payments of principal and interest required to be made on account of Total Long-Term Debt during such calendar year increasing said sum by any addition to interest expense on account of Restricted Rentals as computed with respect to the Times Interest Earned Ratio herein.

Depreciation and Amortization Expense shall mean an amount constituting the depreciation and amortization of the Mortgagor as computed pursuant to Accounting Requirements.

**Electric System** shall mean, and shall be broadly construed to encompass and include, all of the Mortgagor's interests in all electric production, transmission, distribution, conservation, load management, general plant and other related facilities, equipment or property and in any mine, well, pipeline, plant, structure or other facility for the development, production, manufacture, storage, fabrication or processing of fossil, nuclear or other fuel of any kind or in any facility or rights with respect to the supply of water, in each case for use, in whole or in major part, in any of the Mortgagor's generating plants, now existing or hereafter acquired by lease, contract, purchase or otherwise or constructed by the Mortgagor, including any interest or participation of the Mortgagor in any such facilities or any rights to the output or capacity thereof,<sup>3</sup> together with all additions, betterments, extensions and improvements to such Electric System or any part thereof hereafter made and together with all lands, easements and rights-of-way of the Mortgagor and all other works, property or structures of the Mortgagor and contract rights and other tangible and intangible assets of the Mortgagor used or useful in connection with or related to such Electric System, including without limitation a contract right or other contractual arrangement referred to in Granting Clause First, Subclause <sup>o</sup> but excluding any Excepted Property.

**Environmental Law and Environmental Laws** shall mean all federal, state, and local laws, regulations, and requirements related to protection of human health or the environment, including but not limited to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. 9601 et seq.), the Resource Conservation and Recovery Act (42 U.S.C. 6901 et seq.), the Clean Water Act (33 U.S.C. 1251 et seq.) and the Clean Air Act (42 U.S.C. 7401 et seq.), and any amendments and implementing regulations of such acts.

**Equity** shall mean the total margins and equities computed pursuant to Accounting Requirements, but excluding any Regulatory Created Assets.

**Event of Default** shall have the meaning specified in Section 4.01 hereof.

**Excepted Property** shall have the meaning stated in the Granting Clauses.

**Government** shall mean the United States of America acting by and through the Administrator of RUS or REA and shall include its successors and assigns.

**Government Notes** shall mean the Original Notes, and any Additional Notes, issued by the Mortgagor to the Government, or guaranteed or insured as to payment by the Government.

**Independent** shall mean when used with respect to any specified person or entity means such a person or entity who (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in the Mortgagor or in any affiliate of the Mortgagor and (3) is not connected with the Mortgagor as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions.

**Interest Expense** shall mean an amount constituting the interest expense of the Mortgagor as computed pursuant to Accounting Requirements.

**Lien** shall mean any statutory or common law or non-consensual mortgage, pledge, security interest, encumbrance, lien, right of set off, claim or charge of any kind, including, without limitation, any conditional sale or other title retention transaction, any lease transaction in the nature thereof and any secured transaction under the UCC.

**Loan Agreement** shall mean any agreement executed by and between the Mortgagor and the Government or any other lender in connection with the execution and delivery of any Notes secured hereby.

**Long-Term Debt** shall mean any amount included in Total Long-Term Debt pursuant to Accounting Requirements.

**Long-Term Lease** shall mean a lease having an unexpired term (taking into account terms of renewal at the option of the lessor, whether or not such lease has previously been renewed) of more than 12 months.

**Margins** shall mean the sum of amounts recorded as operating margins and non-operating margins as computed in accordance with Accounting Requirements.

**Maximum Debt Limit**, if any, shall mean the amount more particularly described in Schedule "A" hereof.

**Mortgage** shall mean this Restated Mortgage and Security Agreement, including any amendments or supplements thereto from time to time.

**Mortgaged Property** shall have the meaning specified as stated in the Habendum to the Granting Clauses.

**Mortgagee or Mortgagees** shall mean the parties identified in the first paragraph of this instrument as the "Mortgagees", as well as any and all other entities that become a Mortgagee pursuant to Article II of this Mortgage by entering into a supplemental mortgage in accordance with Section 2.04 of Article II hereof. The term also includes in all cases the successors and assigns of any Mortgagee.

**Net Utility Plant** shall mean the amount constituting the total utility plant of the Mortgagor less depreciation computed in accordance with Accounting Requirements.

**Note or Notes** shall mean one or more of the Government Notes, and any other Notes which may, from time to time, be secured under this Mortgage.

**Noteholder or Noteholders** shall mean one or more of the holders of Notes secured by this Mortgage; PROVIDED, however, that in the case of any Notes that have been guaranteed or insured as to payment by the Government, as to such Notes Noteholder or Noteholders shall mean the Government, exclusively, regardless of whether such

notes are in the possession of the Government.

**Original Mortgage** means the instrument(s) identified as such in Schedule "A" hereof.

**Original Notes** shall mean the Notes listed on Schedule "A" hereto as such, such Notes being instruments evidencing outstanding indebtedness of the Mortgagor (i) to the Government (including indebtedness which has been issued by the Mortgagor to a third party and guaranteed or insured as to payment by the Government) and (ii) to each other Mortgagee on the date of this Mortgage.

**Outstanding Notes** shall mean as of the date of determination, (i) all Notes theretofore issued, executed and delivered to any Mortgagee and (ii) any Notes guaranteed or insured as to payment by the Government, except (a) Notes referred to in clause (i) or (ii) for which the principal and interest have been fully paid and which have been canceled by the Noteholder, and (b) Notes the payment for which has been provided for pursuant to Section 5.03.

**Permitted Debt** shall have the meaning specified in Section 3.08.

**Permitted Encumbrances** shall mean:

- (1) as to the property specifically described in Granting Clause First, the restrictions, exceptions, reservations, conditions, limitations, interests and other matters which are set forth or referred to in such descriptions and each of which fits one or more of the clauses of this definition, PROVIDED, such matters do not in the aggregate materially detract from the value of the Mortgaged Property taken as a whole and do not materially impair the use of such property for the purposes for which it is held by the Mortgagor;
- (2) liens for taxes, assessments and other governmental charges which are not delinquent;
- (3) liens for taxes, assessments and other governmental charges already delinquent which are currently being contested in good faith by appropriate proceedings; PROVIDED the Mortgagor shall have set aside on its books adequate reserves with respect thereto;
- (4) mechanics', workmen's, repairmen's, materialmen's, warehousemen's and carriers' liens and other similar liens arising in the ordinary course of business for charges which are not delinquent, or which are being contested in good faith and have not proceeded to judgment; PROVIDED the Mortgagor shall have set aside on its books adequate reserves with respect thereto;
- (5) liens in respect of judgments or awards with respect to which the Mortgagor shall in good faith currently be prosecuting an appeal or proceedings for review and with respect to which the Mortgagor shall have secured a stay of execution pending such appeal or proceedings for review; PROVIDED the Mortgagor

shall have set aside on its books adequate reserves with respect thereto;

- (6) easements and similar rights granted by the Mortgagor over or in respect of any Mortgaged Property, PROVIDED that in the opinion of the Board or a duly authorized officer of the Mortgagor such grant will not impair the usefulness of such property in the conduct of the Mortgagor's business and will not be prejudicial to the interests of the Mortgagees, and similar rights granted by any predecessor in title of the Mortgagor;
- (7) easements, leases, reservations or other rights of others in any property of the Mortgagor for streets, roads, bridges, pipes, pipe lines, railroads, electric transmission and distribution lines, telegraph and telephone lines, the removal of oil, gas, coal or other minerals and other similar purposes, flood rights, river control and development rights, sewage and drainage rights, restrictions against pollution and zoning laws and minor defects and irregularities in the record evidence of title, PROVIDED that such easements, leases, reservations, rights, restrictions, laws, defects and irregularities do not materially affect the marketability of title to such property and do not in the aggregate materially impair the use of the Mortgaged Property taken as a whole for the purposes for which it is held by the Mortgagor;
- (8) liens upon lands over which easements or rights of way are acquired by the Mortgagor for any of the purposes specified in Clause (7) of this definition, securing indebtedness neither created, assumed nor guaranteed by the Mortgagor nor on account of which it customarily pays interest, which liens do not materially impair the use of such easements or rights of way for the purposes for which they are held by the Mortgagor;
- (9) leases existing at the date of this instrument affecting property owned by the Mortgagor at said date which have been previously disclosed to the Mortgagees in writing and leases for a term of not more than two years (including any extensions or renewals) affecting property acquired by the Mortgagor after said date;
- (10) terminable or short term leases or permits for occupancy, which leases or permits expressly grant to the Mortgagor the right to terminate them at any time on not more than six months' notice and which occupancy does not interfere with the operation of the business of the Mortgagor;
- (11) any lien or privilege vested in any lessor, licensor or permittor for rent to become due or for other obligations or acts to be performed, the payment of which rent or performance of which other obligations or acts is required under leases, subleases, licenses or permits, so long as the payment of such rent or the performance of such other obligations or acts is not delinquent;
- (12) liens or privileges of any employees of the Mortgagor for salary or wages earned but not yet payable;

- (13) the burdens of any law or governmental regulation or permit requiring the Mortgagor to maintain certain facilities or perform certain acts as a condition of its occupancy of or interference with any public lands or any river or stream or navigable waters;
- (14) any irregularities in or deficiencies of title to any rights-of-way for pipe lines, telephone lines, telegraph lines, power lines or appurtenances thereto, or other improvements thereon, and to any real estate used or to be used primarily for right-of-way purposes, PROVIDED that in the opinion of counsel for the Mortgagor, the Mortgagor shall have obtained from the apparent owner of the lands or estates therein covered by any such right-of-way a sufficient right, by the terms of the instrument granting such right-of-way, to the use thereof for the construction, operation or maintenance of the lines, appurtenances or improvements for which the same are used or are to be used, or PROVIDED that in the opinion of counsel for the Mortgagor, the Mortgagor has power under eminent domain, or similar statutes, to remove such irregularities or deficiencies;
- (15) rights reserved to, or vested in, any municipality or governmental or other public authority to control or regulate any property of the Mortgagor, or to use such property in any manner, which rights do not materially impair the use of such property, for the purposes for which it is held by the Mortgagor;
- (16) any obligations or duties, affecting the property of the Mortgagor, to any municipality or governmental or other public authority with respect to any franchise, grant, license or permit;
- (17) any right which any municipal or governmental authority may have by virtue of any franchise, license, contract or statute to purchase, or designate a purchaser of or order the sale of, any property of the Mortgagor upon payment of cash or reasonable compensation therefor or to terminate any franchise, license or other rights or to regulate the property and business of the Mortgagor; PROVIDED, HOWEVER, that nothing in this clause 17 is intended to waive any claim or rights that the Government may otherwise have under Federal laws;
- (18) as to properties of other operating electric companies acquired after the date of this Mortgage by the Mortgagor as permitted by Section 3.10 hereof, reservations and other matters as to which such properties may be subject as more fully set forth in such Section;
- (19) any lien required by law or governmental regulations as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Mortgagor to maintain self-insurance or to participate in any fund established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, old age pensions or other social security, or to share in the privileges or benefits required for companies participating in such arrangements; PROVIDED, HOWEVER, that nothing in this clause 19 is intended to waive any claim or rights that the Government may

otherwise have under Federal laws;

- (20) liens arising out of any defeased mortgage or indenture of the Mortgagor;
- (21) the undivided interest of other owners, and liens on such undivided interests, in property owned jointly with the Mortgagor as well as the rights of such owners to such property pursuant to the ownership contracts;
- (22) any lien or privilege vested in any lessor, licensor or permittor for rent to become due or for other obligations or acts to be performed, the payment of which rent or the performance of which other obligations or acts is required under leases, subleases, licenses or permits, so long as the payment of such rent or the performance of such other obligations or acts is not delinquent;
- (23) purchase money mortgages permitted by Section 3.08;
- (24) the Original Mortgage;
- (25) this Mortgage.

**Property Additions** shall mean Utility System property as to which the Mortgagor shall provide Title Evidence and which shall be (or, if retired, shall have been) subject to the lien of this Mortgage, which shall be properly chargeable to the Mortgagor's utility plant accounts under Accounting Requirements (including property constructed or acquired to replace retired property credited to such accounts) and which shall be:

- (1) acquired (including acquisition by merger, consolidation, conveyance or transfer) or constructed by the Mortgagor after the date hereof, including property in the process of construction, insofar as not reflected on the books of the Mortgagor with respect to periods on or prior to the date hereof, and
- (2) used or useful in the utility business of the Mortgagor conducted with the properties described in the Granting Clauses of this Mortgage, even though separate from and not physically connected with such properties.

"Property Additions" shall also include:

- (3) easements and rights-of-way that are useful for the conduct of the utility business of the Mortgagor, and
- (4) property located or constructed on, over or under public highways, rivers or other public property if the Mortgagor has the lawful right under permits, licenses or franchises granted by a governmental body having jurisdiction in the premises or by the law of the State in which such property is located to maintain and operate such property for an unlimited, indeterminate or indefinite period or for the period, if any, specified in such permit, license or franchise or law and to remove such property at the expiration of the period covered by such permit, license or franchise or law, or if the terms of such permit, license, franchise or

law require any public authority having the right to take over such property to pay fair consideration therefor.

"Property Additions" shall NOT include:

- (a) good will, going concern value, contracts, agreements, franchises, licenses or permits, whether acquired as such, separate and distinct from the property operated in connection therewith, or acquired as an incident thereto, or
- (b) any shares of stock or indebtedness or certificates or evidences of interest therein or other securities, or
- (c) any plant or system or other property in which the Mortgagor shall acquire only a leasehold interest, or any betterments, extensions, improvements or additions (other than movable physical personal property which the Mortgagor has the right to remove), of, upon or to any plant or system or other property in which the Mortgagor shall own only a leasehold interest unless (i) the term of the leasehold interest in the property to which such betterment, extension, improvement or addition relates shall extend for at least 75 % of the useful life of such betterment, extension, improvement or addition and (ii) the lessor shall have agreed to give the Mortgagee reasonable notice and opportunity to cure any default by the Mortgagor under such lease and not to disturb any Mortgagee's possession of such leasehold estate in the event any Mortgagee succeeds to the Mortgagor's interest in such lease upon any Mortgagee's exercise of any remedies under this Mortgage so long as there is no default in the performance of the tenant's covenants contained therein, or
- (d) any property of the Mortgagor subject to the Permitted Encumbrance described in clause (23) of the definition thereof.

**Prudent Utility Practice** shall mean any of the practices, methods and acts which, in the exercise of reasonable judgment, in light of the facts, including, but not limited to, the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry prior thereto, known at the time the decision was made, would have been expected to accomplish the desired result consistent with cost-effectiveness, reliability, safety and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to optimum practice, method or act to the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with cost-effectiveness, reliability, safety and expedition.

**REA** shall mean the Rural Electrification Administration of the United States Department of Agriculture, the predecessor of RUS.

**Regulatory Created Assets** shall mean the sum of any amounts properly recordable as unrecovered plant and regulatory study costs or as other regulatory assets, pursuant to

Accounting Requirements.

**Restricted Rentals** shall mean all rentals required to be paid under finance leases and charged to income, exclusive of any amounts paid under any such lease (whether or not designated therein as rental or additional rental) for maintenance or repairs, insurance, taxes, assessments, water rates or similar charges. For the purpose of this definition the term "finance lease" shall mean any lease having a rental term (including the term for which such lease may be renewed or extended at the option of the lessee) in excess of 3 years and covering property having an initial cost in excess of \$250,000 other than aircraft, ships, barges, automobiles, trucks, trailers, rolling stock and vehicles; office, garage and warehouse space; office equipment and computers.

**RUS** shall mean the Rural Utilities Service, an agency of the United States Department of Agriculture, or if at any time after the execution of this Mortgage RUS is not existing and performing the duties of administering a program of rural electrification as currently assigned to it, then the entity performing such duties at such time.

**Security Interest** shall mean any assignment, transfer, mortgage, hypothecation or pledge.

**Subordinated Indebtedness** shall mean secured indebtedness of the Mortgagor, payment of which shall be subordinated to the prior payment of the Notes in accordance with the provisions of Section 3.08 hereof by subordination agreement in form and substance satisfactory to each Mortgagee which approval will not be unreasonably withheld.

**Supplemental Mortgage** shall mean an instrument of the type described in Section 2.04.

**Times Interest Earned Ratio ("TIER")** shall mean the ratio determined as follows: for each calendar year: add (i) patronage capital or margins of the Mortgagor and (ii) Interest Expense on Total Long-Term Debt of the Mortgagor and divide the total so obtained by Interest Expense on Total Long-Term Debt of the Mortgagor, provided, however, that in computing Interest Expense on Total Long-Term Debt, there shall be added, to the extent not otherwise included, an amount equal to 33-1/3% of the excess of Restricted Rentals paid by the Mortgagor over 2% of the Mortgagor's Equity.

**Title Evidence** shall mean with respect to any real property:

- (1) an opinion of counsel to the effect that the Mortgagor has title, whether fairly deducible of record or based upon prescriptive rights (or, as to personal property, based on such evidence as counsel shall determine to be sufficient), as in the opinion of counsel is satisfactory for the use thereof in connection with the operations of the Mortgagor, and counsel in giving such opinion may disregard any irregularity or deficiency in the record evidence of title which, in

the opinion of such counsel, can be cured by proceedings within the power of the Mortgagor or does not substantially impair the usefulness of such property for the purpose of the Mortgagor and may base such opinion upon counsel's own investigation or upon affidavits, certificates, abstracts of title, statements or investigations made by persons in whom such counsel has confidence or upon examination of a certificate or guaranty of title or policy of title insurance in which counsel has confidence; or

- (2) a mortgagee's policy of title insurance in the amount of the cost to the Mortgagor of the land included in Property Additions, as such cost is determined by the Mortgagor in accordance with the Accounting Requirements, issued in favor of the Mortgagees by an entity authorized to insure title in the states where the subject property is located, showing the Mortgagor as the owner of the subject property and insuring the lien of this Mortgage; and with respect to any personal property a certificate of the general manager or other duly authorized officer that the Mortgagor lawfully owns and is possessed of such property.

**Total Assets** shall mean an amount constituting total assets of the Mortgagor as computed pursuant to Accounting Requirements, but excluding any Regulatory Created Assets.

**Total Long-Term Debt** shall mean the total outstanding long-term debt of the Mortgagor as computed pursuant to Accounting Requirements.

**Total Utility Plant** shall mean the total of all property properly recorded in the utility plant accounts of the Mortgagor, pursuant to Accounting Requirements.

**Uniform Commercial Code or UCC** shall mean the UCC of the state referred to in Section 1.04, and if Mortgaged Property is located in a state other than that state, then as to such Mortgaged Property UCC refers to the UCC in effect in the state where such property is located.

**Utility System** shall mean the Electric System and all of the Mortgagor's interest in community infrastructure located substantially within its electric service territory, namely water and waste systems, solid waste disposal facilities, telecommunications and other electronic communications systems, and natural gas distribution systems.

**Section 1.02. General Rules of Construction:**

- a. Accounting terms not defined in Section 1.01 are used in this Mortgage in their ordinary sense and any computations relating to such terms shall be computed in accordance with the Accounting Requirements.
- b. Any reference to "directors" or "board of directors" shall be deemed to mean "trustees" or "board of trustees," as the case may be.

**Section 1.03. Special Rules of Construction if RUS is a Mortgagee:**

During any period that RUS is a Mortgagee, the following additional provisions shall apply:

- a. In the case of any Notes that have been guaranteed or insured as to payment by RUS, as to such Notes RUS shall be considered to be the Noteholder, exclusively, regardless of whether such Notes are in the possession of RUS.
- b. In the case of any prior approval rights conferred upon RUS by Federal statutes, including (without limitation) Section 7 of the Rural Electrification Act of 1936, as amended, with respect to the sale or disposition of property, rights, or franchises of the Mortgagor, all such statutory rights are reserved except to the extent that they are expressly modified or waived in this Mortgage.

**Section 1.04. Governing Law:**

This Mortgage shall be construed in and governed by Federal law to the extent applicable, and otherwise by the laws of the state listed on Schedule "A" hereto.

**Section 1.05 Notices:**

All demands, notices, reports, approvals, designations, or directions required or permitted to be given hereunder shall be in writing and shall be deemed to be properly given if sent by registered or certified mail, postage prepaid, or delivered by hand, or sent by facsimile transmission, receipt confirmed, addressed to the proper party or parties at the addresses listed on Schedule "A" hereto, and as to any other person, firm, corporation or governmental body or agency having an interest herein by reason of being a Mortgagee, at the last address designated by such person, firm, corporation, governmental body or agency to the Mortgagor and the other Mortgagees. Any such party may from time to time designate to each other a new address to which demands, notices, reports, approvals, designations or directions may be addressed, and from and after any such designation the address designated shall be deemed to be the address of such party in lieu of the address given above.

## ARTICLE II

### ADDITIONAL NOTES

#### Section 2.01. Additional Notes:

- (a) Without the prior consent of any Mortgagee or any Noteholder, the Mortgagor may issue Additional Notes to the Government or to another lender or lenders for the purpose of acquiring, procuring or constructing new or replacement Eligible Property Additions and such Additional Notes will thereupon be secured equally and ratably with the Notes if each of the following requirements are satisfied:
- (1) As evidenced by a certificate of an Independent certified public accountant sent to each Mortgagee on or before the first advance of proceeds from such Additional Notes:
    - (i) The Mortgagor shall have achieved for each of the two calendar years immediately preceding the issuance of such Additional Notes, a TIER of not less than 1.5 and a DSC of not less than 1.25;
    - (ii) After taking into account the effect of such Additional Notes on the Total Long Term Debt of the Mortgagor, the ratio of the Mortgagor's Net Utility Plant to its Total Long Term Debt shall be greater than or equal to 1.0 on a pro forma basis;
    - (iii) After taking into account the effect of such Additional Notes on the Total Assets of such Mortgagor, the Mortgagor shall have Equity greater than or equal to 27 percent of Total Assets on a pro forma basis; and
    - (iv) The sum of the aggregate principal amount of such Additional Notes (if any) that are not related to the Electric System if added to the aggregate outstanding principal amount of all the existing Notes (if any) that are not related to the Electric System will not exceed 30% of the Mortgagor's Equity on a pro forma basis.
  - (2) No Event of Default has occurred and is continuing hereunder, or any event which with the giving of notice or lapse of time or both would become an Event of Default has occurred and is continuing.
  - (3) The Eligible Property Additions being constructed, acquired, procured or replaced are part of the Mortgagor's Utility System.
  - (4) The Mortgagor's general manager or other duly authorized officer shall send to each of the Mortgagees a certificate in substantially the form attached hereto as Exhibit A on or before the date of the first advance of

proceeds from such Additional Notes.

(b) For purposes of this section:

- (1) "Eligible Property Additions" shall mean Property Additions acquired or whose construction was completed not more than 5 years prior to the issuance of the Additional Notes and Property Additions acquired or whose construction is started and/or completed not more than 4 years after issuance of the Additional Notes, but shall exclude any Property Additions financed by any other debt secured under the Mortgage at the time additional Notes are issued;
- (2) Notes are considered to be "issued" on, and the date of "issuance" shall be, the date on which they are executed by the Mortgagor; and
- (3) For purposes of calculating the pro forma ratios in subparagraphs (a)(1)(ii) and (iii), the values for Total Long Term Debt and Total Assets before debt issuance and the values for Equity and Net Utility Plant shall be the most recently available end-of-month figures preceding the issuance of the Additional Notes, but in no case for a month ending more than 180 days preceding such issuance.

**Section 2.02. Refunding or Refinancing Notes:**

The Mortgagor shall also have the right without the consent of any Mortgagee or any Noteholder to issue Additional Notes for the purpose of refunding or refinancing any Notes so long as the total amount of outstanding indebtedness evidenced by such Additional Note or Notes is not greater than 105% of the then outstanding principal balance of the Note or Notes being refunded or refinanced. PROVIDED, HOWEVER, that the Mortgagor may not exercise its rights under this Section if an Event of Default has occurred and is continuing, or any event which with the giving of notice or lapse of time or both would become an Event of Default has occurred and is continuing. On or before the first advance of proceeds from Additional Notes issued under this section, the Mortgagor shall notify each Mortgagee of the refunding or refinancing. Additional Notes issued pursuant to this Section 2.02 will thereupon be secured equally and ratably with the Notes.

**Section 2.03. Other Additional Notes.**

With the prior written consent of each Mortgagee, the Mortgagor may issue Additional Notes to the Government or any lender or lenders, which Notes will thereupon be secured equally and ratably with Notes without regard to whether any of the requirements of Sections 2.01 or 2.02 are satisfied.

**Section 2.04. Additional Lenders Entitled to the Benefit of This Mortgage:**

Without the prior consent of any Mortgagee or any Noteholder, each new lender

designated as a payee in any Additional Notes issued by the Mortgagor pursuant to Section 2.01 or 2.02 of this Mortgage shall become a Mortgagee hereunder upon the execution and delivery by the Mortgagor and such lender of a supplemental mortgage hereto designating such lender as a Mortgagee hereunder. Such new lender shall be entitled to the benefits of this Mortgage without further act or deed. Each Mortgagee and each person or entity that becomes a lender pursuant to Section 2.01 or 2.02 of this Mortgage shall, upon the request of the Mortgagor to do so, execute and deliver a supplement to this Mortgage in substantially the form set forth in Section 2.05 to evidence the addition of such new lender as an additional Mortgagee entitled to the benefits of this Mortgage. The failure of any existing Mortgagee to enter into such supplemental mortgage shall not deprive the new lender of its rights under this Mortgage; provided that such additional indebtedness otherwise conforms in all respects with the requirements for issuing Additional Notes under this Mortgage.

**Section 2.05. Form of Supplemental Mortgage:**

- (a) The form of supplemental mortgage referred to in Section 2.04 is attached to this Mortgage as Exhibit B and hereby incorporated by reference as if set forth in full at this point.
- (b) In the event that the Mortgagor subsequently issues Additional Notes pursuant to Sections 2.01 or 2.02 to any existing Mortgagee and that Mortgagee desires further assurance that such Additional Notes will be secured by the lien of the Mortgage, an instrument substantially in the form of the supplemental mortgage attached as Exhibit B may be used.
- (c) In the event that the Mortgagor issues Additional Notes pursuant to Section 2.03 to either an existing Mortgagee or a new lender, in either case with the prior written consent of each Mortgagee, then an instrument substantially in the form of the supplemental mortgage attached as Exhibit B may also be used.

**ARTICLE III**

**PARTICULAR COVENANTS OF THE MORTGAGOR**

**Section 3.01. Payment of Debt Service on Notes:**

The Mortgagor will duly and punctually pay the principal, premium, if any, and interest on the Notes in accordance with the terms of the Notes, the Loan Agreements, this Mortgage and any Supplemental Mortgage authorizing such Notes.

**Section 3.02. Warranty of Title:**

- (a) At the time of the execution and delivery of this instrument, the Mortgagor has good and marketable title in fee simple to the real property specifically described in Granting Clause First as owned in fee and good and marketable

title to the interests in real property specifically described in Granting Clause First, subject to no mortgage, lien, charge or encumbrance except as stated therein, and has full power and lawful authority to grant, bargain, sell, alien, remise, release, convey, assign, transfer, encumber, mortgage, pledge, set over and confirm said real property and interests in real property in the manner and form aforesaid.

- (b) At the time of the execution and delivery of this instrument, the Mortgagor lawfully owns and is possessed of the personal property specifically described in Granting Clauses First and Second, subject to no mortgage, lien, charge or encumbrance except as stated therein, and has full power and lawful authority to mortgage, assign, transfer, deliver, pledge and grant a continuing security interest in said property and, including any proceeds thereof, in the manner and form aforesaid.
- (c) The Mortgagor hereby does and will forever warrant and defend the title to the property specifically described in Granting Clause First against the claims and demands of all persons whomsoever, except Permitted Encumbrances.

**Section 3.03. After-Acquired Property; Further Assurances; Recording:**

- (a) All property of every kind, other than Excepted Property, acquired by the Mortgagor after the date hereof, shall, immediately upon the acquisition thereof by the Mortgagor, and without any further mortgage, conveyance or assignment, become subject to the lien of this Mortgage; SUBJECT, HOWEVER, to Permitted Encumbrances and the exceptions, if any, to which all of the Mortgagees consent. Nevertheless, the Mortgagor will do, execute, acknowledge and deliver all and every such further acts, conveyances, mortgages, financing statements and assurances as any Mortgagee shall require for accomplishing the purposes of this Mortgage.
- (b) The Mortgagor will cause this Mortgage and all Supplemental Mortgages and other instruments of further assurance, including all financing statements covering security interests in personal property, to be promptly recorded, registered and filed, and will execute and file such financing statements and cause to be issued and filed such continuation statements, all in such manner and in such places as may be required by law fully to preserve and protect the rights of all of the Mortgagees and Noteholders hereunder to all property comprising the Mortgaged Property. The Mortgagor will furnish to each Mortgagee:
  - (1) promptly after the execution and delivery of this instrument and of each Supplemental Mortgage or other instrument of further assurance, an Opinion of Counsel stating that, in the opinion of such Counsel, this instrument and all such Supplemental Mortgages and other instruments of further assurance have been properly recorded, registered and filed to the extent necessary to make effective the lien intended to be created by this Mortgage, and reciting the details of such action or referring to prior Opinions of Counsel in which such details are given, and stating that all

financing statements and continuation statements have been executed and filed that are necessary fully to preserve and protect the rights of all of the Mortgagees and Noteholders hereunder, or stating that, in the opinion of such Counsel, no such action is necessary to make the lien effective; and

- (2) during the month of January in each year following the first anniversary of the date of this Mortgage, an Opinion of Counsel, dated on or about the date of delivery, either stating that, in the opinion of such Counsel, such action has been taken with respect to the recording, registering, filing, re-recording, re-registering and re-filing of this instrument and of all Supplemental Mortgages, financing statements, continuation statements or other instruments of further assurances as is necessary to maintain the lien of this Mortgage (including the lien on any property acquired by the Mortgagor after the execution and delivery of this instrument and owned by the Mortgagor at the end of preceding calendar year) and reciting the details of such action or referring to prior Opinions of Counsel in which such details are given, and stating that all financing statements and continuation statements have been executed and filed that are necessary to fully preserve and protect the rights of all of the Mortgagees and Noteholders hereunder, or stating that, in the opinion of such Counsel, no such action is necessary to maintain such lien.

**Section 3.04. Environmental Requirements and Indemnity:**

- (a) The Mortgagor shall, with respect to all facilities which may be part of the Mortgaged Property, comply with all Environmental Laws.
- (b) The Mortgagor shall defend, indemnify, and hold harmless each Mortgagee, its successors and assigns, from and against any and all liabilities, losses, damages, costs, expenses (including but not limited to reasonable attorneys' fees and expenses), causes of actions, administrative proceedings, suits, claims, demands, or judgments of any nature arising out of or in connection with any matter related to the Mortgage Property and any Environmental Law, including but not limited to:
  - (1) the past, present, or future presence of any hazardous substance, contaminant, pollutant, or hazardous waste on or related to the Mortgaged Property;
  - (2) any failure at any time by the undersigned to comply with the terms of any order related to the Mortgaged Property and issued by any Federal, state, or municipal department or agency (other than RUS) exercising its authority to enforce any Environmental Law; and
  - (3) any lien or claim imposed under any Environmental Law related to clause (1).
- (c) Within 10 (ten) business days after receiving knowledge of any liability, losses,

damages, costs, expenses (including but not limited to reasonable attorneys' fees and expenses), cause of action, administrative proceeding, suit, claim, demand, judgment, lien, reportable event including but not limited to the release of a hazardous substance, or potential or actual violation or non-compliance arising out of or in connection with the Mortgaged Property and any Environmental Law, the Mortgagor shall provide each Mortgagee with written notice of such matter. With respect to any matter upon which it has provided such notice, the Mortgagor shall immediately take any and all appropriate actions to remedy, cure, defend, or otherwise affirmatively respond to the matter.

**Section 3.05. Payment of Taxes:**

The Mortgagor will pay or cause to be paid as they become due and payable all taxes, assessments and other governmental charges lawfully levied or assessed or imposed upon the Mortgaged Property or any part thereof or upon any income therefrom, and also (to the extent that such payment will not be contrary to any applicable laws) all taxes, assessments and other governmental charges lawfully levied, assessed or imposed upon the lien or interest of the Noteholders or of the Mortgagees in the Mortgaged Property, so that (to the extent aforesaid) the lien of this Mortgage shall at all times be wholly preserved at the cost of the Mortgagor and without expense to the Mortgagees or the Noteholders; PROVIDED, HOWEVER, that the Mortgagor shall not be required to pay and discharge or cause to be paid and discharged any such tax, assessment or governmental charge to the extent that the amount, applicability or validity thereof shall currently be contested in good faith by appropriate proceedings and the Mortgagor shall have established and shall maintain adequate reserves on its books for the payment of the same.

**Section 3.06. Authority to Execute and Deliver Notes, Loan Agreements and Mortgage; All Action Taken; Enforceable Obligations:**

The Mortgagor is authorized under its articles of incorporation and bylaws (or code of regulations) and all applicable laws and by corporate action to execute and deliver the Notes, any Additional Notes, the Loan Agreements and this Mortgage. The Notes, the Loan Agreements and this Mortgage are, and any Additional Notes and Loan Agreements when executed and delivered will be, the valid and enforceable obligations of the Mortgagor in accordance with their respective terms.

**Section 3.07. Restrictions on Further Encumbrances on Property:**

Except to secure Additional Notes, the Mortgagor will not, without the prior written consent of each Mortgagee, create or incur or suffer or permit to be created or incurred or to exist any Lien, charge, assignment, pledge or mortgage on any of the Mortgaged Property inferior to, prior to, or on a parity with the Lien of this Mortgage except for the Permitted Encumbrances. Subject to the provisions of Section 3.08, or unless approved by each of the Mortgagees, the Mortgagor will purchase all materials, equipment and replacements to be incorporated in or used in connection with the Mortgaged Property outright and not subject to any conditional sales agreement, chattel mortgage, bailment, lease or other agreement reserving to the

seller any right, title or Lien.

**Section 3.08. Restrictions On Additional Permitted Debt:**

The Mortgagor shall not incur, assume, guarantee or otherwise become liable in respect of any debt for borrowed money and Restricted Rentals (including Subordinated Debt) other than the following: ("Permitted Debt")

- (1) Additional Notes issued in compliance with Article II hereof;
- (2) Purchase money indebtedness in non-Utility System property, in an amount not exceeding 10% of Net Utility Plant;
- (3) Restricted Rentals in an amount not to exceed 5% of Equity during any 12 consecutive calendar month period;
- (4) Unsecured lease obligations incurred in the ordinary course of business except Restricted Rentals;
- (5) Unsecured indebtedness for borrowed money;
- (6) Debt represented by dividends declared but not paid; and
- (7) Subordinated Indebtedness approved by each Mortgagee.

PROVIDED, However, that the Mortgagor may incur Permitted Debt without the consent of the Mortgagee only so long as there exists no Event of Default hereunder and there has been no continuing occurrence which with the passage of time and giving of notice could become an Event of Default hereunder.

PROVIDED, FURTHER, by executing this Mortgage any consent of RUS that the Mortgagor would otherwise be required to obtain under this Section is hereby deemed to be given or waived by RUS by operation of law to the extent, but only to the extent, that to impose such a requirement of RUS consent would clearly violate existing Federal laws or government regulations.

**Section 3.09. Preservation of Corporate Existence and Franchises:**

The Mortgagor will, so long as any Outstanding Notes exist, take or cause to be taken all such action as from time to time may be necessary to preserve its corporate existence and to preserve and renew all franchises, rights of way, easements, permits, and licenses now or hereafter to be granted or upon it conferred the loss of which would have a material adverse affect on the Mortgagor's financial condition or business. The Mortgagor will comply with all laws, ordinances, regulations, orders, decrees and other legal requirements applicable to it or its property the violation of which could have a material adverse affect on the Mortgagor's financial condition or business.

**Section 3.10. Limitations on Consolidations and Mergers:**

The Mortgagor shall not, without the prior written approval of each Mortgagee, consolidate or merge with any other corporation or convey or transfer the Mortgaged Property substantially as an entirety unless:

- (1) such consolidation, merger, conveyance or transfer shall be on such terms as shall fully preserve the lien and security hereof and the rights and powers of the Mortgagees hereunder;
- (2) the entity formed by such consolidation or with which the Mortgagor is merged or the corporation which acquires by conveyance or transfer the Mortgaged Property substantially as an entirety shall execute and deliver to the Mortgagees a mortgage supplemental hereto in recordable form and containing an assumption by such successor entity of the due and punctual payment of the principal of and interest on all of the Outstanding Notes and the performance and observance of every covenant and condition of this Mortgage;
- (3) immediately after giving effect to such transaction, no default hereunder shall have occurred and be continuing;
- (4) the Mortgagor shall have delivered to the Mortgagees a certificate of its general manager or other officer, in form and substance satisfactory to each of the Mortgagees, which shall state that such consolidation, merger, conveyance or transfer and such supplemental mortgage comply with this subsection and that all conditions precedent herein provided for relating to such transaction have been complied with;
- (5) the Mortgagor shall have delivered to the Mortgagees an opinion of counsel in form and substance satisfactory to each of the Mortgagees; and
- (6) the entity formed by such consolidation or with which the Mortgagor is merged or the corporation which acquires by conveyance or transfer the Mortgaged Property substantially as an entirety shall be an entity -
  - (A) having Equity equal to at least 27% of its Total Assets on a pro forma basis after giving effect to such transaction,
  - (B) having a pro forma TIER of not less than 1.50 and a pro forma DSC of not less than 1.25 for each of the two preceding calendar years, and
  - (C) having Net Utility Plant equal to or greater than 1.0 times its Total Long-Term Debt on a pro forma basis. Upon any consolidation or merger or any conveyance or transfer of the Mortgaged Property substantially as an entirety in accordance with this subsection, the successor entity formed by such consolidation or with which the Mortgagor is merged or to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right

and power of, the Mortgagor under this Mortgage with the same effect as if such successor entity had been named as the Mortgagor herein.

**Section 3.11. Limitations on Transfers of Property:**

The Mortgagor may not, except as provided in Section 3.10 above, without the prior written approval of each Mortgagee, sell, lease or transfer any Mortgaged Property to any other person or entity (including any subsidiary or affiliate of the Mortgagor), unless

- (1) there exists no Event of Default or occurrence which with the passing of time and the giving of notice would be an Event of Default,
- (2) fair market value is obtained for such property,
- (3) the aggregate value of assets so sold, leased or transferred in any 12-month period is less than 10% of Net Utility Plant, and
- (4) the proceeds of such sale, lease or transfer, less ordinary and reasonable expenses incident to such transaction, are immediately
  - (i) applied as a prepayment of all Notes equally and ratably,
  - (ii) in the case of dispositions of equipment, materials or scrap, applied to the purchase of other property useful in the Mortgagor's utility business, not necessarily of the same kind as the property disposed of, which shall forthwith become subject to the Lien of the Mortgage, or
  - (iii) applied to the acquisition or construction of utility plant.

**Section 3.12. Maintenance of Mortgaged Property:**

- (a) So long as the Mortgagor holds title to the Mortgaged Property, the Mortgagor will at all times maintain and preserve the Mortgaged Property which is used or useful in the Mortgagor's business and each and every part and parcel thereof in good repair, working order and condition, ordinary wear and tear and acts of God excepted, and in compliance with Prudent Utility Practice and in compliance with all applicable laws, regulations and orders, and will from time to time make all needed and proper repairs, renewals and replacements, and useful and proper alterations, additions, betterments and improvements, and will, subject to contingencies beyond its reasonable control, at all times use all reasonable diligence to furnish the consumers served by it through the Mortgaged Property, or any part thereof, with an adequate supply of electric power and energy. If any substantial part of the Mortgaged Property is leased by the Mortgagor to any other party, the lease agreement between the Mortgagor and the lessee shall obligate the lessee to comply with the provisions of subsections (a) and (b) of this Section in respect of the leased facilities and to

permit the Mortgagor to operate the leased facilities in the event of any failure - by the lessee to so comply.

- (b) If in the sole judgement of any Mortgagee, the Mortgaged Property is not being maintained and repaired in accordance with paragraph (a) of this section, such Mortgagee may send to the Mortgagor a written report of needed improvements and the Mortgagor will upon receipt of such written report promptly undertake to accomplish such improvements.
- (c) The Mortgagor further agrees that upon reasonable written request of any Mortgagee, which request together with the requests of any other Mortgagees shall be made no more frequently than once every three years, the Mortgagor will supply promptly to each Mortgagee a certification (hereinafter called the "Engineer's Certification"), in form satisfactory to the requestor, prepared by a professional engineer, who shall be satisfactory to the Mortgagees, as to the condition of the Mortgaged Property. If in the sole judgment of any Mortgagee the Engineer's Certification discloses the need for improvements to the condition of the Mortgaged Property or any other operations of the Mortgagor, such Mortgagee may send to the Mortgagor a written report of such improvements and the Mortgagor will upon receipt of such written report promptly undertake to accomplish such of these improvements as are required by such Mortgagee.

**Section 3.13. Insurance; Restoration of Damaged Mortgaged Property:**

- (a) The Mortgagor will take out, as the respective risks are incurred, and maintain the classes and amounts of insurance in conformance with generally accepted utility industry standards for such classes and amounts of coverages of utilities of the size and character of the Mortgagor and consistent with Prudent Utility Practice.
- (b) The foregoing insurance coverage shall be obtained by means of bond and policy forms approved by regulatory authorities having jurisdiction, and, with respect to insurance upon any part of the Mortgaged Property, shall provide that the insurance shall be payable to the Mortgagees as their interests may appear by means of the standard mortgagee clause without contribution. Each policy or other contract for such insurance shall contain an agreement by the insurer that, notwithstanding any right of cancellation reserved to such insurer, such policy or contract shall continue in force for at least 30 days after written notice to each Mortgagee of cancellation.
- (c) In the event of damage to or the destruction or loss of any portion of the Mortgaged Property which is used or useful in the Mortgagor's business and which shall be covered by insurance, unless each Mortgagee shall otherwise agree, the Mortgagor shall replace or restore such damaged, destroyed or lost portion so that such Mortgaged Property shall be in substantially the same condition as it was in prior to such damage, destruction or loss, and shall apply the proceeds of the insurance for that purpose. The Mortgagor shall replace the lost portion of such Mortgaged Property or shall commence such restoration

promptly after such damage, destruction or loss shall have occurred and shall complete such replacement or restoration as expeditiously as practicable, and shall pay or cause to be paid out of the proceeds of such insurance all costs and expenses in connection therewith.

- (d) Sums recovered under any policy or fidelity bond by the Mortgagor for a loss of funds advanced under the Notes or recovered by any Mortgagee or any Noteholder for any loss under such policy or bond shall, unless applied as provided in the preceding paragraph, be used to finance construction of utility plant secured or to be secured by this Mortgage, or unless otherwise directed by the Mortgagees, be applied to the prepayment of the Notes pro rata according to the unpaid principal amounts thereof (such prepayments to be applied to such Notes and installments thereof as may be designated by the respective Mortgagee at the time of any such prepayment), or be used to construct or acquire utility plant which will become part of the Mortgaged Property. At the request of any Mortgagee, the Mortgagor shall exercise such rights and remedies which they may have under such policy or fidelity bond and which may be designated by such Mortgagee, and the Mortgagor hereby irrevocably appoints each Mortgagee as its agent to exercise such rights and remedies under such policy or bond as such Mortgagee may choose, and the Mortgagor shall pay all costs and reasonable expenses incurred by the Mortgagee in connection with such exercise.

**Section 3.14. Mortgagee Right to Expend Money to Protect Mortgaged Property:**

The Mortgagor agrees that any Mortgagee from time to time hereunder may, in its sole discretion, after having given 5 Business days prior written notice to the Mortgagor, but shall not be obligated to, advance funds on behalf of the Mortgagor, in order to insure the Mortgagor's compliance with any covenant, warranty, representation or agreement of the Mortgagor made in or pursuant to this Mortgage or any of the Loan Agreements, to preserve or protect any right or interest of the Mortgagees in the Mortgaged Property or under or pursuant to this Mortgage or any of the Loan Agreements, including without limitation, the payment of any insurance premiums or taxes and the satisfaction or discharge of any judgment or any Lien upon the Mortgaged Property or other property or assets of the Mortgagor; provided, however, that the making of any such advance by or through any Mortgagee shall not constitute a waiver by any Mortgagee of any Event of Default with respect to which such advance is made nor relieve the Mortgagor of any such Event of Default. The Mortgagor shall pay to a Mortgagee upon demand all such advances made by such Mortgagee with interest thereon at a rate equal to that on the Note having the highest interest rate but in no event shall such rate be in excess of the maximum rate permitted by applicable law. All such advances shall be included in the obligations and secured by the security interest granted hereunder.

**Section 3.15. Time Extensions for Payment of Notes:**

Any Mortgagee may, at any time or times in succession without notice to or the consent of the Mortgagor, or any other Mortgagee, and upon such terms as such

Mortgagee may prescribe, grant to any person, firm or corporation who shall have become obligated to pay all or any part of the principal of (and premium, if any) or interest on any Note held by or indebtedness owed to such Mortgagee or who may be affected by the lien hereby created, an extension of the time for the payment of such principal, (and premium, if any) or interest, and after any such extension the Mortgagor will remain liable for the payment of such Note or indebtedness to the same extent as though it had at the time of such extension consented thereto in writing.

**Section 3.16. Application of Proceeds from Condemnation:**

- (a) In the event that the Mortgaged Property or any part thereof, shall be taken under the power of eminent domain, all proceeds and avails therefrom may be used to finance construction of utility plant secured or to be secured by this Mortgage. Any proceeds not so used shall forthwith be applied by the Mortgagor: first, to the ratable payment of any indebtedness secured by this Mortgage other than principal of or interest on the Notes; second, to the ratable payment of interest which shall have accrued on the Notes and be unpaid; third, to the ratable payment of or on account of the unpaid principal of the Notes, to such installments thereof as may be designated by the respective Mortgagee at the time of any such payment; and fourth, the balance shall be paid to whomsoever shall be entitled thereto.
- (b) If any part of the Mortgaged Property shall be taken by eminent domain, each Mortgagee shall release the property so taken from the Mortgaged Property and shall be fully protected in so doing upon being furnished with:
  - (1) A certificate of a duly authorized officer of the Mortgagor requesting such release, describing the property to be released and stating that such property has been taken by eminent domain and that all conditions precedent herein provided or relating to such release have been complied with; and
  - (2) an opinion of counsel to the effect that such property has been lawfully taken by exercise of the right of eminent domain, that the award for such property so taken has become final and that all conditions precedent herein provided for relating to such release have been complied with.

**Section 3.17. Compliance with Loan Agreements; Notice of Amendments to and Defaults under Loan Agreements:**

The Mortgagor will observe and perform all of the material covenants, agreements, terms and conditions contained in any Loan Agreement entered into in connection with the issuance of any of the Notes, as from time to time amended. The Mortgagor will send promptly to each Mortgagee notice of any default by the Mortgagor under any Loan Agreement and notice of any amendment to any Loan Agreement. Upon request of any Mortgagee, the Mortgagor will furnish to such Mortgagee single copies of such Loan Agreements and amendments thereto as such Mortgagee may request.

**Section 3.18. Rights of Way, etc., Necessary in Business:**

The Mortgagor will use its best efforts to obtain all such rights of way, easements from landowners and releases from lienors as shall be necessary or advisable in the conduct of its business, and, if requested by any Mortgagee, deliver to such Mortgagee evidence satisfactory to such Mortgagee of the obtaining of such rights of way, easements or releases.

**Section 3.19. Limitations on Providing Free Electric Services:**

The Mortgagor will not furnish or supply or cause to be furnished or supplied any electric power, energy or capacity free of charge to any person, firm or corporation, public or private, and the Mortgagor will enforce the payment of any and all amounts owing to the Mortgagor by reason of the ownership and operation of the Utility System by discontinuing such use, output, capacity, or service, or by filing suit therefor within 90 days after any such accounts are due, or by both such discontinuance and by filing suit.

**Section 3.20. Keeping Books; Inspection by Mortgagee:**

The Mortgagor will keep proper books, records and accounts, in which full and correct entries shall be made of all dealings or transactions of or in relation to the Notes and the Utility System, properties, business and affairs of the Mortgagor in accordance with the Accounting Requirements. The Mortgagor will at any and all times, upon the written request of any Mortgagee and at the expense of the Mortgagor, permit such Mortgagee by its representatives to inspect the Utility System and properties, books of account, records, reports and other papers of the Mortgagor and to take copies and extracts therefrom, and will afford and procure a reasonable opportunity to make any such inspection, and the Mortgagor will furnish to each Mortgagee any and all such information as such Mortgagee may request, with respect to the performance by the Mortgagor of its covenants under this Mortgage, the Notes and the Loan Agreements.

**ARTICLE IV**

**EVENTS OF DEFAULT AND REMEDIES**

**Section 4.01. Events of Default:**

Each of the following shall be an "Event of Default" under this Mortgage:

- (a) default shall be made in the payment of any installment of or on account of interest on or principal of (or premium, if any associated with) any Note or Notes for more than five (5) Business Days after the same shall be required to be made;

- (b) default shall be made in the due observance or performance of any other of the covenants, conditions or agreements on the part of the Mortgagor, in any of the Notes, Loan Agreements or in this Mortgage, and such default shall continue for a period of thirty (30) days after written notice specifying such default and requiring the same to be remedied and stating that such notice is a "Notice of Default" hereunder shall have been given to the Mortgagor by any Mortgagee; PROVIDED, HOWEVER that in the case of a default on the terms of a Note or Loan Agreement of a particular Mortgagee, the "Notice of Default" required under this paragraph may only be given by that Mortgagee;
- (c) the Mortgagor shall file a petition in bankruptcy or be adjudicated a bankrupt or insolvent, or shall make an assignment for the benefit of its creditors, or shall consent to the appointment of a receiver of itself or of its property, or shall institute proceedings for its reorganization or proceedings instituted by others for its reorganization shall not be dismissed within sixty (60) days after the institution thereof;
- (d) a receiver or liquidator of the Mortgagor or of any substantial portion of its property shall be appointed and the order appointing such receiver or liquidator shall not be vacated within sixty (60) days after the entry thereof;
- (e) the Mortgagor shall forfeit or otherwise be deprived of its corporate charter or franchises, permits, easements, or licenses required to carry on any material portion of its business;
- (f) a final judgment for an amount of more than \$25,000 shall be entered against the Mortgagor and shall remain unsatisfied or without a stay in respect thereof for a period of sixty (60) days; or,
- (g) any material representation or warranty made by the Mortgagor herein, in the Loan Agreements or in any certificate or financial statement delivered hereunder or thereunder shall prove to be false or misleading in any material respect at the time made.

**Section 4.02. Acceleration of Maturity; Rescission and Annulment:**

- (a) If an Event of Default described in Section 4.01(a) has occurred and is continuing, any Mortgagee upon which such default has occurred may declare the principal of all its Notes secured hereunder to be due and payable immediately by a notice in writing to the Mortgagor and to the other Mortgagees (failure to provide said notice to any other Mortgagee shall not affect the validity of any acceleration of the Note or Notes by such Mortgagee), and upon such declaration, all unpaid principal (and premium, if any) and accrued interest so declared shall become due and payable immediately, anything contained herein or in any Note or Notes to the contrary notwithstanding.

- (b) If any other Event of Default shall have occurred and be continuing, any Mortgagee may declare the principal of all its Notes secured hereunder to be due and payable immediately by a notice in writing to the Mortgagor and to the other Mortgagees (failure to provide said notice to any other Mortgagee shall not affect the validity of any acceleration of the Note or Notes by such Mortgagee), and upon such declaration, all unpaid principal (and premium, if any) and accrued interest so declared shall become due and payable immediately, anything contained herein or in any Note or Notes to the contrary notwithstanding.
- (c) Upon receipt of actual knowledge of or any notice of acceleration by any Mortgagee, any other Mortgagee may declare the principal of all of its Notes to be due and payable immediately by a notice in writing to the Mortgagor and upon such declaration, all unpaid principal (and premium, if any) and accrued interest so declared shall become due and payable immediately, anything contained herein or in any Note or Notes or Loan Agreements to the contrary notwithstanding.
- (d) If after the unpaid principal of (and premium, if any) and accrued interest on any of the Notes shall have been so declared to be due and payable, all payments in respect of principal and interest which shall have become due and payable by the terms of such Note or Notes (other than amounts due as a result of the acceleration of the Notes) shall be paid to the respective Mortgagees, and (i) all other defaults under the Loan Agreements, the Notes and this Mortgage shall have been made good or cured to the satisfaction of the Mortgagees representing at least 80% of the aggregate unpaid principal balance of all of the Notes then outstanding, (ii) proceedings to foreclose the lien of this Mortgage have not been commenced, and (iii) all reasonable expenses paid or incurred by the Mortgagees in connection with the acceleration shall have been paid to the respective Mortgagees, then in every such case such Mortgagees representing at least 80% of the aggregate unpaid principal balance of all of the Notes then outstanding may by written notice to the Mortgagor, for purposes of this Mortgage, annul such declaration and waive such default and the consequences thereof, but no such waiver shall extend to or affect any subsequent default or impair any right consequent thereon.

**Section 4.03. Remedies of Mortgagees:**

If one or more of the Events of Default shall occur and be continuing, any Mortgagee personally or by attorney, in its or their discretion, may, in so far as not prohibited by law:

- (a) take immediate possession of the Mortgaged Property, collect and receive all credits, outstanding accounts and bills receivable of the Mortgagor and all rents, income, revenues, proceeds and profits pertaining to or arising from the Mortgaged Property, or any part thereof, whether then past due or accruing thereafter, and issue binding receipts therefor; and manage, control and operate the Mortgaged Property as fully as the Mortgagor might do if in possession

thereof, including, without limitation, the making of all repairs or replacements deemed necessary or advisable by such Mortgagee in possession;

- (b) proceed to protect and enforce the rights of all of the Mortgagees by suits or actions in equity or at law in any court or courts of competent jurisdiction, whether for specific performance of any covenant or any agreement contained herein or in aid of the execution of any power herein granted or for the foreclosure hereof or hereunder or for the sale of the Mortgaged Property, or any part thereof, or to collect the debts hereby secured or for the enforcement of such other or additional appropriate legal or equitable remedies as may be deemed necessary or advisable to protect and enforce the rights and remedies herein granted or conferred, and in the event of the institution of any such action or suit the Mortgagee instituting such action or suit shall have the right to have appointed a receiver of the Mortgaged Property and of all proceeds, rents, income, revenues and profits pertaining thereto or arising therefrom, whether then past due or accruing after the appointment of such receiver, derived, received or had from the time of the commencement of such suit or action, and such receiver shall have all the usual powers and duties of receivers in like and similar cases, to the fullest extent permitted by law, and if application shall be made for the appointment of a receiver the Mortgagor hereby expressly consents that the court to which such application shall be made may make said appointment; and
- (c) sell or cause to be sold all and singular the Mortgaged Property or any part thereof, and all right, title, interest, claim and demand of the Mortgagor therein or thereto, at public auction at such place in any county (or its equivalent locality) in which the property to be sold, or any part thereof, is located, at such time and upon such terms as may be specified in a notice of sale, which shall state the time when and the place where the sale is to be held, shall contain a brief general description of the property to be sold, and shall be given by mailing a copy thereof to the Mortgagor at least fifteen (15) days prior to the date fixed for such sale and by publishing the same once in each week for two successive calendar weeks prior to the date of such sale in a newspaper of general circulation published in said locality or, if no such newspaper is published in such locality, in a newspaper of general circulation in such locality, the first such publication to be not less than fifteen (15) days nor more than thirty (30) days prior to the date fixed for such sale. Any sale to be made under this subparagraph (c) of this Section 4.03 may be adjourned from time to time by announcement at the time and place appointed for such sale or for such adjourned sale or sales, and without further notice or publication the sale may be had at the time and place to which the same shall be adjourned; provided, however, that in the event another or different notice of sale or another or different manner of conducting the same shall be required by law the notice of sale shall be given or the sale be conducted, as the case may be, in accordance with the applicable provisions of law. The expense incurred by any Mortgagee (including, but not limited to, receiver's fees, counsel fees, cost of advertisement and agents' compensation) in the exercise of any of the remedies provided in this Mortgage shall be secured by this Mortgage.

- (d) In the event that a Mortgagee proceeds to enforce remedies under this Section, any other Mortgagee may join in such proceedings. In the event that the Mortgagees are not in agreement with the method or manner of enforcement chosen by any other Mortgagee, the Mortgagees representing a majority of the aggregate unpaid principal balance on the then outstanding Notes may direct the method and manner in which remedial action will proceed.

**Section 4.04. Application of Proceeds from Remedial Actions:**

Any proceeds or funds arising from the exercise of any rights or the enforcement of any remedies herein provided after the payment or provision for the payment of any and all costs and expenses in connection with the exercise of such rights or the enforcement of such remedies shall be applied first, to the ratable payment of indebtedness hereby secured other than the principal of or interest on the Notes; second, to the ratable payment of interest which shall have accrued on the Notes and which shall be unpaid; third, to the ratable payment of or on account of the unpaid principal of the Notes; and the balance, if any, shall be paid to whomsoever shall be entitled thereto.

**Section 4.05. Remedies Cumulative; No Election:**

Every right or remedy herein conferred upon or reserved to the Mortgagees or to the Noteholders shall be cumulative and shall be in addition to every other right and remedy given hereunder or now or hereafter existing at law, or in equity, or by statute. The pursuit of any right or remedy shall not be construed as an election.

**Section 4.06. Waiver of Appraisal Rights; Marshaling of Assets Not Required:**

The Mortgagor, for itself and all who may claim through or under it, covenants that it will not at any time insist upon or plead, or in any manner whatever claim, or take the benefit or advantage of, any appraisal, valuation, stay, extension or redemption laws now or hereafter in force in any locality where any of the Mortgaged Property may be situated, in order to prevent, delay or hinder the enforcement or foreclosure of this Mortgage, or the absolute sale of the Mortgaged Property, or any part thereof, or the final and absolute putting into possession thereof, immediately after such sale, of the purchaser or purchasers thereat, and the Mortgagor, for itself and all who may claim through or under it, hereby waives the benefit of all such laws unless such waiver shall be forbidden by law. Under no circumstances shall there be any marshaling of assets upon any foreclosure or to other enforcement of this Mortgage.

**Section 4.07. Notice of Default:**

The Mortgagor covenants that it will give immediate written notice to each Mortgagee of the occurrence of any Event of Default or in the event that any right or remedy described in Sections 4.02 and 4.03 hereof is exercised or enforced or any action is taken to exercise or enforce any such right or remedy.

## ARTICLE V

### POSSESSION UNTIL DEFAULT-DEFEASANCE CLAUSE

#### Section 5.01. Possession Until Default:

Until some one or more of the Events of Default shall have happened, the Mortgagor shall be suffered and permitted to retain actual possession of the Mortgaged Property, and to manage, operate and use the same and any part thereof, with the rights and franchises appertaining thereto, and to collect, receive, take, use and enjoy the rents, revenues, issues, earnings, income, proceeds, products and profits thereof or therefrom, subject to the provisions of this Mortgage.

#### Section 5.02. Defeasance:

If the Mortgagor shall pay or cause to be paid the whole amount of the principal of (and premium, if any) and interest on the Notes at the times and in the manner therein provided, and shall also pay or cause to be paid all other sums payable by the Mortgagor hereunder or under any Loan Agreement and shall keep and perform, all covenants herein required to be kept and performed by it, then and in that case, all property, rights and interest hereby conveyed or assigned or pledged shall revert to the Mortgagor and the estate, right, title and interest of the Mortgagee so paid shall thereupon cease, determine and become void and such Mortgagee, in such case, on written demand of the Mortgagor but at the Mortgagor's cost and expense, shall enter satisfaction of the Mortgage upon the record. In any event, each Mortgagee, upon payment in full to such Mortgagee by the Mortgagor of all principal of (and premium, if any) and interest on any Note held by such Mortgagee and the payment and discharge by the Mortgagor of all charges due to such Mortgagee hereunder or under any Loan Agreement, shall execute and deliver to the Mortgagor such instrument of satisfaction, discharge or release as shall be required by law in the circumstances.

#### Section 5.03. Special Defeasance:

Other than any Notes excluded by the foregoing Sections 5.01 and 5.02 and Notes which have become due and payable, the Mortgagor may cause the Lien of this Mortgage to be defeased with respect to any Note for which it has deposited or caused to be deposited in trust solely for the purpose an amount sufficient to pay and discharge the entire indebtedness on such Note for principal (and premium, if any) and interest to the date of maturity thereof; PROVIDED, HOWEVER, that depository serving as trustee for such trust must first be accepted as such by the Mortgagee whose Notes are being defeased under this section. In such event, such a Note will no longer be considered to be an Outstanding Note for purposes of this Mortgage and the Mortgagee shall execute and deliver to the Mortgagor such instrument of satisfaction, discharge or release as shall be required by law in the circumstances.

**ARTICLE VI**  
**MISCELLANEOUS**

**Section 6.01. Property Deemed Real Property:**

It is hereby declared to be the intention of the Mortgagor that any electric generating plant or plants and facilities and all electric transmission and distribution lines, or other Electric System or Utility System facilities, embraced in the Mortgaged Property, including (without limitation) all rights of way and easements granted or given to the Mortgagor or obtained by it to use real property in connection with the construction, operation or maintenance of such plant, lines, facilities or systems, and all other property physically attached to any of the foregoing, shall be deemed to be real property.

**Section 6.02. Mortgage to Bind and Benefit Successors and Assigns:**

All of the covenants, stipulations, promises, undertakings and agreements herein contained by or on behalf of the Mortgagor shall bind its successors and assigns, whether so specified or not, and all titles, rights and remedies hereby granted to or conferred upon the Mortgagees shall pass to and inure to the benefit of the successors and assigns of the Mortgagees and shall be deemed to be granted or conferred for the ratable benefit and security of all who shall from time to time be a Mortgagee. The Mortgagor hereby agrees to execute such consents, acknowledgements and other instruments as may be reasonably requested by any Mortgagee in connection with the assignment, transfer, mortgage, hypothecation or pledge of the rights or interests of such Mortgagee hereunder or under the Notes or in and to any of the Mortgaged Property.

**Section 6.03. Headings:**

The descriptive headings of the various articles and sections of this Mortgage and also the table of contents were formulated and inserted for convenience only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

**Section 6.04. Severability Cause:**

In case any provision of this Mortgage or in the Notes or in the Loan Agreements shall be invalid or unenforceable, the validity, legality and enforceability of the remaining provisions thereof shall not in any way be affected or impaired, nor shall any invalidity or unenforceability as to any Mortgagee hereunder affect or impair the rights hereunder of any other Mortgagee.

**Section 6.05. Mortgage Deemed Security Agreement:**

To the extent that any of the property described or referred to in this Mortgage is governed by the provisions of the UCC this Mortgage is hereby deemed a "security agreement" under the UCC, and, if so elected by any Mortgagee, a "financing

statement" under the UCC for said security agreement. The mailing addresses of the Mortgagor as debtor, and the Mortgagees as secured parties are as set forth in Schedule "A" hereof. If any Mortgagee so directs the Mortgagor to do so, the Mortgagor shall file as a financing statement under the UCC for said security agreement and for the benefit of all of the Mortgagees, an instrument other than this Mortgage. In such case, the instrument to be filed shall be in a form customarily accepted by the filing office as a financing statement. PROCEEDS OF COLLATERAL ARE COVERED HEREBY.

**Section 6.06. Indemnification by Mortgagor of Mortgagees:**

The Mortgagor agrees to indemnify and save harmless each Mortgagee against any liability or damages which any of them may incur or sustain in the exercise and performance of their rightful powers and duties hereunder. For such reimbursement and indemnity, each Mortgagee shall be secured under this Mortgage in the same manner as the Notes and all such reimbursements for expense or damage shall be paid to the Mortgagee incurring or suffering the same with interest at the rate specified in Section 3.14 hereof. The Mortgagor's obligation to indemnify the Mortgagees under this section and under Section 3.04 shall survive the satisfaction of the Notes, the reconveyance or foreclosure of this Mortgage, the acceptance of a deed in lieu of foreclosure, or any transfer or abandonment of the Mortgaged Property.

IN WITNESS WHEREOF, GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION, as Mortgagor, has caused this Restated Mortgage and Security Agreement to be signed in its name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, and UNITED STATES OF AMERICA, as Mortgagee, and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION, as Mortgagee, have each caused this Restated Mortgage and Security Agreement to be signed in their respective names by duly authorized persons, all as of the day and year first above written.

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION

By: \_\_\_\_\_  
*President*

(SEAL)

Attest: \_\_\_\_\_

Title: \_\_\_\_\_

Executed by the Mortgagor in the presence of:

\_\_\_\_\_

\_\_\_\_\_

*Witnesses*

UNITED STATES OF AMERICA

By: \_\_\_\_\_  
Director, of the Northern Regional Division  
Rural Utilities Service

Executed by the United States of America,  
Mortgagee, in the presence of:

\_\_\_\_\_

\_\_\_\_\_

*Witnesses*

NATIONAL RURAL UTILITIES COOPERATIVE  
FINANCE CORPORATION

By: \_\_\_\_\_  
ASSISTANT SECRETARY-TREASURER

(SEAL)

Attest: \_\_\_\_\_  
ASSISTANT SECRETARY-TREASURER

Executed by the above-named Mortgagee  
in the presence of:

\_\_\_\_\_

\_\_\_\_\_

*Witnesses*



COMMONWEALTH OF VIRGINIA )  
 ) SS  
COUNTY OF FAIRFAX )

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is the ASSISTANT SECRETARY-TREASURER of the National Rural Utilities Cooperative Finance Corporation, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors and said ASSISTANT SECRETARY-TREASURER acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

\_\_\_\_\_  
Notary Public

(Notarial Seal)

My commission expires:

DISTRICT OF COLUMBIA ) SS

BEFORE ME, a Notary Public, in and for the District of Columbia, appeared in person the within named \_\_\_\_\_, Director, Northern Regional Division of the Rural Utilities Service, United States of America, to me personally known, and known to be the identical person who subscribed the foregoing instrument in said capacity, and who, after being by me duly sworn, stated that he is duly authorized to execute the foregoing instrument for and in the name and behalf of the United States of America, and further stated and acknowledged that he had executed the foregoing instrument as the free and voluntary act and deed of the United States of America, for the consideration, uses and purposes therein mentioned and set forth.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal this  
day of \_\_\_\_\_, 19\_\_\_\_.

\_\_\_\_\_  
Notary Public

(Notarial Seal)

My commission expires:

## SCHEDULE A: Part One

1. The Maximum Debt Limit referred to in Section 1.01 is \$50,000,000. The Notes at any one time secured hereby shall not in the aggregate principal amount exceed the Maximum Debt Limit.
2. The state referred to in Section 1.04 is Kentucky.
3. The addresses of the parties referred to in Section 1.05 are as follows:

As to the Mortgagor:

Grayson Rural Electric Cooperative Corporation  
109 Bagby Park  
Grayson, Kentucky 41143

As to the Mortgagees:

Rural Utilities Service  
United States Department of Agriculture  
Washington, DC 20250-1500

National Rural Utilities Cooperative Finance Corporation  
2201 Cooperative Way  
Herndon, Virginia 22071-3025

4. The Original Mortgage as referred to in the first WHEREAS clause above is more particularly described as follows:

<u>Instrument Title</u>	<u>Dated as of</u>
Supplemental Mortgage and Security Agreement	September 1, 1972
Supplement to Supplemental Mortgage and Security Agreement	July 26, 1974
Restated Mortgage and Security Agreement	February 23, 1988

5. The outstanding secured obligations of the Mortgagor referred to in the fourth WHEREAS clause above are evidenced by the Original Notes described below:

**ORIGINAL NOTES issued to the Government<sup>1</sup>**

Payor<sup>2</sup>:

<u>Note Designation</u>	<u>Face Amount</u>	<u>Date</u>	<u>Final Maturity</u>	<u>% Rate<sup>3</sup></u>
G	\$651,000.00	June 10, 1961	June 10, 1996	2%
H	\$491,000.00	January 3, 1964	January 4, 2002	2%
K	\$727,000.00	September 7, 1966	September 7, 2001	2%
L	\$546,000.00	April 16, 1969	April 16, 2004	2%
M2	\$377,000.00	September 1, 1972	September 1, 2007	2%
P6	\$368,000.00	July 26, 1974	July 26, 2009	5%
R6	\$368,000.00	September 16, 1975	September 16, 2010	5%
S6	\$623,000.00	July 18, 1977	July 18, 2012	5%
T6	\$540,000.00	June 20, 1978	June 20, 2013	5%
U6	\$1,547,000.00	August 3, 1979	August 3, 2014	5%
V6	\$1,280,000.00	January 7, 1982	January 7, 2017	5%
W6	\$1,050,000.00	July 19, 1985	July 19, 2020	5%
X6	\$1,335,000.00	February 23, 1988	February 23, 2023	5%
Y6	\$1,511,000.00	April 26, 1991	April 26, 2026	5%
Z42	\$2,594,000.00	July 22, 1994	July 22, 2029	5%
AA42	\$8,648,000.00	June 3, 1996	June 3, 2031	5%

<sup>1</sup>"Government" as used in this listing refers to the United States of America acting through the Administrator of the Rural Utilities Service (RUS) or its predecessor agency, the Rural Electrification Administration (REA). Any Notes which are payable to a third party and which either RUS or REA has guaranteed as to payment are also described in this listing as being issued to the Government. Such guaranteed Notes are typically issued to the Federal Financing Bank, an instrumentality of the United States Treasury, and held by RUS.

<sup>2</sup>The name of payor appears in this space only where it differs from the name of the Mortgagor as it appears on page 1 of this instrument.

<sup>3</sup>V=variable interest rate calculated by RUS pursuant to title 7 of the Code of Federal Regulations or by the United States Treasury, Federal Financing Bank.

## Schedule B

### Property Schedule

The contracts referred to in Subclause "C" of Granting Clause First include without limitation the Wholesale Power Contract, dated as of October 1, 1964, between the Mortgagor and East Kentucky Power Cooperative, Inc. (formerly East Kentucky Rural Electric Cooperative Corporation), and the Participation Agreement, dated as of June 12, 1973, among the Government, CFC, East Kentucky Power Cooperative, Inc. (formerly East Kentucky Rural Electric Cooperative Corporation) and the Mortgagor.

*The counties referred to in Subclause "B" of Granting Clause First are: Carter, Elliott, Greenup, Lawrence, Lewis and Rowan, in the State of Kentucky.*

The fee and leasehold interests in real property referred to in Subclause "A" of Granting Clause First are described on the attached page 1 of this Schedule B

- (1) A certain tract of land described in a certain deed from George L. Bagby, single, to the Grayson Rural Electric Cooperative Corporation, dated April 14, 1958, and recorded in Deed Book 106. Page 361, Carter County Deed Records.
  
- (2) A certain tract of land described in a certain deed from George L. Bagby, Single, to the Grayson Rural Electric Cooperative Corporation, dated May 8, 1953, and recorded in Deed Book 89 Page 570, Carter County Deed Records.

*RESTMORT.via 4/26/96*

**Schedule C**  
**Excepted Property**

NONE

Exhibit A

Manager's Certificate

MANAGER'S CERTIFICATE REQUIRED UNDER MORTGAGE SECTION 2.01  
FOR ADDITIONAL NOTES

On behalf on \_\_\_\_\_ (the "Borrower"),

(Name of Borrower)

I \_\_\_\_\_ hereby certify as follows:

1. I am the Manager of the Borrower and have been duly authorized to deliver this certificate in connection with the Additional Note or Notes to be issued on or about \_\_\_\_\_ pursuant to Section 2.01 of the Mortgage  
(Date Note or Notes are to be Signed)

dated \_\_\_\_\_

2. No Event of Default has occurred and is continuing under the Mortgage, or any event which with the giving of notice or lapse of time or both would become an Event of Default has occurred and is continuing.
3. The Additional Notes described in paragraph 1 are for the purpose of funding Property Additions being constructed, acquired, procured or replaced that are or will become part of the Borrower's Utility System.
4. The Property Additions referred to in paragraph 3 are Eligible Property Additions, i.e. Property Additions acquired or whose construction was completed not more than 5 years prior to the issuance of additional Notes and Property Additions acquired or whose construction is started and/or completed not more than 4 years after issuance of the additional Notes, but shall exclude any Property Additions financed by any other debt secured under the Mortgage at the time additional Notes are issued
5. I have reviewed the certificate of the Independent certified public accountant also being delivered to each of the Mortgagees pursuant to Section 2.01 in connection with the aforesaid Additional Note or Notes and concur with the conclusions expressed therein.

6. Capitalized terms that are used in this certificate but are not defined herein have the meanings defined in the Mortgage.

\_\_\_\_\_

*Signed*

\_\_\_\_\_

*Date*

\_\_\_\_\_

*Name*

\_\_\_\_\_

*Title*

Name and Address of Borrower:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Exhibit B**

**Form of Supplemental Mortgage**

---

Supplemental Mortgage and Security Agreement, dated as of \_\_\_\_\_, (hereinafter sometimes called this "Supplemental Mortgage") is made by and among \_\_\_\_\_ (hereinafter called the "Mortgagor"), a corporation existing under the laws of the State of \_\_\_\_\_, and the UNITED STATES OF AMERICA acting by and through the Administrator of the Rural Utilities Service (hereinafter called the "Government"), \_\_\_\_\_ (Supplemental Lender) (hereinafter called \_\_\_\_\_), a \_\_\_\_\_ existing under the laws of \_\_\_\_\_, and intended to confer rights and benefits on both the Government and \_\_\_\_\_ and \_\_\_\_\_ in accordance with this Supplemental Mortgage and the Original Mortgage (hereinafter defined) (the Government and the Supplemental Lenders being hereinafter sometimes collectively referred to as the "Mortgagees").

**Recitals**

Whereas, the Mortgagor, the Government and \_\_\_\_\_ are parties to that certain Restated Mortgage and Security Agreement (the "Original Mortgage" as identified in Schedule "A" of this Supplemental Mortgage) originally entered into between the Mortgagor, the Government acting by and through the Administrator of the Rural Utilities Service (hereinafter called "RUS"), and \_\_\_\_\_; and

Whereas, the Original Mortgage as the same may have been previously supplemented, amended or restated is hereinafter referred to as the "Existing Mortgage"; and

Whereas, the Mortgagor deems it necessary to borrow money for its corporate purposes and to issue its promissory notes and other debt obligations therefor, and to mortgage and pledge its property hereinafter described or mentioned to secure the payment of the same, and to enter into this Supplemental Mortgage pursuant to which all secured debt of the Mortgagor hereunder shall be secured on parity, and to add \_\_\_\_\_ as a Mortgagee and secured party hereunder and under the Existing Mortgage (the Supplemental Mortgage and the Existing Mortgage, hereinafter sometimes collectively referred to the "Mortgage"); and

Whereas, all of the Mortgagor's Outstanding Notes listed in Schedule "A" hereto is secured pari passu by the Existing Mortgage for the benefit of all of the Mortgagees under the Existing Mortgage; and

Whereas, the Existing Mortgage provides the terms by which additional pari passu obligations may be issued thereunder and further provides that the Existing Mortgage may be supplemented from time to time to evidence that such obligations are entitled to the security of the Existing Mortgage and to add additional Mortgagees; and

Whereas, by their execution and delivery of this Supplemental Mortgage the parties hereto do hereby secure the Additional Notes listed in Schedule "A" pari passu with the Outstanding Notes under the Existing Mortgage {and do hereby add \_\_\_\_\_ as a Mortgagee and a secured party under the Existing Mortgage}; and

Whereas, all acts necessary to make this Supplemental Mortgage a valid and binding legal instrument for the security of such notes and related obligations under the terms of the Mortgage, have been in all respects duly authorized:

Now, Therefore, This Supplemental Mortgage Witnesseth: That to secure the payment of the principal of (and premium, if any) and interest on all Notes issued hereunder according to their tenor and effect, and the performance of all provisions therein and herein contained, and in consideration of the covenants herein contained and the purchase or guarantee of Notes by the guarantors or holders thereof, the Mortgagor has mortgaged, pledged and granted a continuing security interest in, and by these presents does hereby grant, bargain, sell, alienate, remise, release, convey, assign, transfer, hypothecate, pledge, set over and confirm, pledge and grant a continuing security interest in for the purposes hereinafter expressed, unto the Mortgagees all property, rights, privileges and franchises of the Mortgagor of every kind and description, real, personal or mixed, tangible and intangible, of the kind or nature specifically mentioned herein or any other kind or nature, except any Excepted Property set forth on Schedule "C" hereof owned or hereafter acquired by the Mortgagor (by purchase, consolidation, merger, donation, construction, erection or in any other way) wherever located, including (without limitation) all and singular the following:

- A. all of those fee and leasehold interests in real property set forth in Schedule "B" hereto, subject in each case to those matters set forth in such Schedule; and
- B. all of those fee and leasehold interests in real property set forth in Schedule "B" of the Existing Mortgage or in any restatement, amendment or supplement thereto, subject in each case to those matters set forth in such Schedule; and
- C. all of the kinds, types or items of property, now owned or hereafter acquired, described as Mortgaged Property in the Existing Mortgage or in any restatement, amendment to supplement thereto as Mortgaged Property.

It is Further Agreed and Covenanted That the Original Mortgage, as previously restated, amended or supplemented, and this Supplement shall constitute one agreement and the parties hereto shall be bound by all of the terms thereof and, without limiting the foregoing.

1. All capitalized terms not defined herein shall have the meaning given in Article I of the Existing Mortgage.

RESTMORT.via 4/26/96

2. This Supplemental Mortgage is one of the Supplemental Mortgages contemplated by Article II of the Original Mortgage.
3. The Maximum Debt Limit for the Mortgage shall be as set forth in Schedule "A" hereto.

In Witness Whereof, \_\_\_\_\_ as Mortgagor

[ACKNOWLEDGEMENTS]

---

**Supplemental Mortgage Schedule A**

**Maximum Debt Limit and Other Information**

1. The Maximum Debt Limit is \$ \_\_\_\_\_.
2. The Original Mortgage as referred to in the first WHEREAS clause above is more particularly described as follows: \_\_\_\_\_.
3. The Outstanding Notes referred to in the fourth WHEREAS clause above are more particularly described as follows:
4. The Additional Notes described in the sixth WHEREAS clause above are more particularly described as follows:

---

**Supplemental Mortgage Schedule B**

**Property Schedule**

The fee and leasehold interests in real property referred to in clause A of the granting clause are more particularly described as follows:



COMMONWEALTH OF KENTUCKY  
**PUBLIC SERVICE COMMISSION**  
730 SCHENKEL LANE  
POST OFFICE BOX 615  
FRANKFORT, KENTUCKY 40602  
www.psc.state.ky.us  
(502) 564-3940  
Fax (502) 564-3460

**Ronald B. McCloud, Secretary**  
**Public Protection and**  
**Regulation Cabinet**

**Helen Helton**  
**Executive Director**  
**Public Service Commission**

**Paul E. Patton**  
**Governor**

December 1, 1999

Carol H. Fraley  
Grayson R.E.C.C.  
109 Bagby Park  
Grayson, KY 41143

Don M. Combs  
Grayson R.E.C.C.  
109 Bagby Park  
Grayson, KY 41143

Re: Case No. 99-412

Dear Ms. Fraley and Mr. Combs:

The Commission staff has reviewed your response of November 12, 1999 in the above case. The case is still considered deficient.

Filing deficiencies pursuant to 807 5:001:

1. Section 6(9): The detailed income statement and balance sheet are to cover a 12-month period ending not more than 90 days prior to the date the application is filed.
2. Section 8(3): The application is to contain either copies of the articles of incorporation and all amendments or, if filed in a prior proceeding, a reference to the style and case number is permitted.
3. 807 KAR 5:001, Section 11(2): The application is to contain either copies of all trust deeds or mortgages, or if previously filed, state the case number.



The statutory time period in which the Commission must process this case will not commence until the above-mentioned information is filed with the Commission. You are requested to file five copies of this information within fifteen days of this letter. If you need further information, please contact Isaac Scott of my staff at (502)564-3940, ext. 444.

Sincerely,



Stephanie Bell  
Secretary of the Commission





## **Grayson Rural Electric Cooperative Corporation**

109 Bagby Park ♦ Grayson, Kentucky 41143-1292  
Telephone: 606-474-5136 ♦ 1-800-562-3532 ♦ Fax: 606-474-5862

November 10, 1999

Helen C. Helton  
Executive Director  
Kentucky Public Service Commission  
730 Schenkel Lane  
P O Box 615  
Frankfort, KY 40602

RECEIVED  
NOV 12 1999  
PUBLIC SERVICE  
COMMISSION

RE: Case No. 99-412

Dear Ms. Helton:

Please find attached the original and ten copies of responses to filing deficiencies noted in the Commission's correspondence of October 28, 1999.

Sincerely,

A handwritten signature in black ink, appearing to read "Don M. Combs", written over a horizontal line.

Don M. Combs  
Manager of Finance & Administration

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

RECEIVED

NOV 12 1999

PUBLIC SERVICE  
COMMISSION

**IN THE MATTER OF:**

**APPLICATION FOR THE ASSUMPTION  
OF SECURITIES BY GRAYSON RURAL  
COOPERATIVE CORPORATION**

**CASE NO. 99-412**

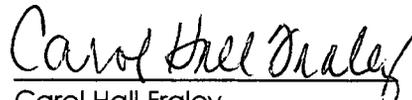
Grayson R.E.C.C. wishes to file the following information in its application for the assumption of securities which was filed on September 24, 1999.

1. No stock is authorized, (807 KAR 5:001, Section 6 (1)).
2. No Stock has been issued and is outstanding, (807 KAR 5:001, Section 6 (2)).
3. No preferred stock has been issued, (807 KAR 5:001, Section 6 (3)).
4. No mortgages have been issued, (807 KAR 5:001, Section 6(4)).
5. No bonds have been issued, (807 KAR 5:001, Section 6(5)).
6. A listing of notes outstanding is filed as Exhibit 1, (807 KAR 5:001, Section 6(6)).
7. A listing of other indebtedness is filed as Exhibit 2, (807 KAR 5:001, Section 6(7)).
8. No capital stock has been issued nor dividends paid, (807 KAR 5:001, Section 6(8)).
9. A detailed income statement and balance sheet is filed as Exhibit 3, (807 KAR 5:001, Section 6(9)).
10. A certified copy of the Articles of Incorporation and all amendments have been previously filed with the Commission .
11. Grayson R.E.C.C.'s property consists of material necessary to operate and maintain approximately 2258 miles of electric distribution line that serve a territory that falls within six counties in northeastern Kentucky, (807 KAR 5:001, Section 11(1)(a)).

12. A statement of the original cost of Grayson's property is filed as Exhibit 4, (807 KAR 5:001, Section 11(1)(a)).
13. Copies of all trust deeds and mortgages have been previously filed with the Commission, (807 KAR 5:001, Section 11(2)(b)).

Respectfully submitted,

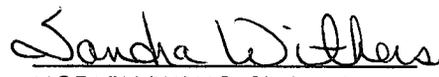
GRAYSON RURAL ELECTRIC  
COOPERATIVE CORPORATION

  
Carol Hall Fraley  
President & CEO

I, Carol Hall Fraley, President & CEO, of Grayson Rural Electric Cooperative Corporation, declare that the statements contained in the foregoing application, as well as the statements filed on September 24, 1999, are true to the best of my information and belief.

  
Carol Hall Fraley, President & CEO  
Grayson Rural Electric  
Cooperative Corporation

Subscribed and sworn to me by Carol Hall Fraley, this 10 day of November, 1999.

  
NOTARY PUBLIC, State at Large

My Commission Expires:

July 23, 2000

Grayson Rural Electric Cooperative  
**Outstanding Long Term Debt**  
 31-Dec-98

Exhibit 1  
 Page 1  
 of 1

Type of Debt	Date of Issue	Date of Maturity	Rate of Interest	Amount Outstanding
RUS	Jan-67	Dec-01	2%	\$ 2,406
	Sep-66	Aug-01	2%	\$ 81,719
	Oct-68	Oct-03	2%	\$ 114,743
	Apr-72	Apr-07	2%	\$ 63,890
	Apr-72	Apr-07	2%	\$ 63,886
	Apr-74	Apr-09	5%	\$ 94,017
	Oct-76	Sep-11	5%	\$ 94,017
	Oct-75	Sep-10	5%	\$ 102,222
	Aug-76	Aug-11	5%	\$ 102,222
	Aug-77	Aug-12	5%	\$ 191,245
	Dec-77	Dec-12	5%	\$ 191,245
	Aug-78	Jul-13	5%	\$ 174,224
	Feb-79	Feb-14	5%	\$ 174,224
	Aug-79	Aug-14	5%	\$ 522,025
	Feb-81	Feb-16	5%	\$ 522,025
	Oct-82	Sep-17	5%	\$ 474,756
	Apr-85	Mar-20	5%	\$ 495,477
	Aug-85	Aug-20	5%	\$ 427,159
	Mar-87	Feb-22	5%	\$ 427,159
	Feb-88	Feb-23	5%	\$ 577,302
	Nov-89	Nov-24	5%	\$ 432,001
	Feb-89	Feb-24	5%	\$ 149,141
	Jun-91	Jun-26	5%	\$ 695,187
	Feb-94	Feb-29	5%	\$ 713,355
	Sep-94	Sep-29	5%	\$ 1,064,964
	Dec-94	Dec-29	5%	\$ 190,725
	Mar-95	Mar-30	5%	\$ 495,692
	Apr-95	Apr-30	5%	\$ 484,075
	May-95	May-30	5%	\$ 275,923
	Sep-96	Sep-31	5%	\$ 1,961,252
	Jan-97	Jan-32	5%	\$ 993,039
	Apr-97	Apr-32	5%	\$ 794,431
Sep-97	Sep-32	5%	\$ 1,092,343	
Dec-97	Dec-32	5%	\$ 893,735	
Apr-98	Apr-33	5%	\$ 844,083	
Oct-98	Oct-03	5%	\$ 648,682	
			\$ 16,624,591	
NRUCFC	Apr-72	Apr-07	7.000%	\$ 48,048
	Mar-74	Mar-09	7.000%	\$ 89,964
	Oct-75	Sep-10	6.525%	\$ 109,352
	Aug-77	Aug-12	8.500%	\$ 197,415
	Dec-77	Dec-12	7.250%	\$ 170,875
	May-80	May-15	6.850%	\$ 511,041
	Mar-85	Feb-20	6.850%	\$ 464,434
	Feb-87	Feb-22	6.850%	\$ 384,187
	Dec-89	Dec-24	6.525%	\$ 528,045
	Feb-94	Feb-29	6.850%	\$ 598,812
			\$ 3,102,173	
Total Long Term Debt			\$ 19,726,764	



Grayson Rural Electric Cooperative  
**Other Indebtedness**  
31-Dec-98

Exhibit 2  
page 1  
of 1

Line of Credit Borrowings

	<u>Date of Maturity</u>		<u>Line of Credit</u>		<u>Amount Outstanding</u>
NRUCFC	Jul-99	\$	2,000,000	\$	1,829,321
CoBank	Jul-99	\$	1,000,000	\$	990,600



Grayson Rural Electric Cooperative  
Statement of Operations  
December 31, 1998

Exhibit 3  
Page 1  
of 2

Operating Revenue

Sale of electric energy	\$	11,868,410
Other electric revenue	\$	450,178
	\$	12,318,588

Operating Expenses

Cost of power	\$	7,155,239
Distribution - operations	\$	493,530
Distribution - maintenance	\$	1,380,129
Consumer accounts	\$	502,777
Consumer service	\$	86,076
Sales	\$	25,384
Administrative and general	\$	761,913

Total operation and maintenance \$ 10,405,048

Depreciation	\$	974,451
Taxes - property	\$	-
Taxes - other	\$	15,587
Interest on long term debt	\$	1,005,907
Other interest expense	\$	50,621
Other deductions	\$	164,685

Total cost of electric service \$ 12,616,299

Utility operating margins \$ (297,711)

Non-operating margins, interest	\$	35,553
Non-operating margins, other	\$	157,390

Patronage capital:

G & T	\$	-
Others	\$	47,516

Net margins \$ (57,252)

ASSETS

Electric Plant		
In service	\$	33,573,537
Under construction	\$	192,143
Less accumulated depreciation	\$	(4,527,102)
Investments	\$	2,910,204
Current Assets:		
Cash and temporary investments	\$	66,787
Accounts receivable, net	\$	2,733,872
Material and supplies	\$	230,210
Prepayments	\$	47,251
Total Assets	\$	35,226,902

MEMBERS' EQUITIES AND LIABILITIES

Margins and Equities:		
Memberships	\$	130,255
Patronage capital	\$	9,097,675
Other equities	\$	91,214
Long Term Debt	\$	19,726,766
Accumulated Operating Provisions	\$	988,059
Current Liabilities		
Notes payable	\$	2,819,921
Accounts payable	\$	1,029,246
Consumer deposits	\$	843,047
Accrued expenses	\$	435,639
Consumer advances for construction	\$	65,080
Total Members' Equities and Liabilities	\$	35,226,902

<u>Account Description</u>	<u>Cost</u>
362 Substation Equipment	\$ 31,054
364 Poles, Towers, and Fixtures	\$ 12,807,623
365 Overhead Conductors and Devices	\$ 9,091,198
367 Underground Conductors and Devices	\$ 126,032
368 Line Transformers	\$ 4,502,036
369 Services	\$ 3,312,881
370 Meters	\$ 913,246
371 Installations on Consumers' Premises	\$ 513,204
389 Land and Land Rights	\$ 44,000
390 Structures and Improvements	\$ 820,677
391 Office Furniture and Equipment	\$ 290,104
392 Transportation Equipment	\$ 738,606
393 Stores Equipment	\$ 5,418
394 Tools, Shop, and Garage Equipment	\$ 5,982
395 Laboratory Equipment	\$ 69,485
396 Large Tools	\$ 19,102
397 Communication Equipment	\$ 237,979
398 Miscellaneous Equipment	\$ 44,909
	<u>\$ 33,573,536</u>



COMMONWEALTH OF KENTUCKY  
**PUBLIC SERVICE COMMISSION**  
730 SCHENKEL LANE  
POST OFFICE BOX 615  
FRANKFORT, KENTUCKY 40602  
www.psc.state.ky.us  
(502) 564-3940  
Fax (502) 564-3460

**Ronald B. McCloud, Secretary**  
**Public Protection and**  
**Regulation Cabinet**

**Helen Helton**  
**Executive Director**  
**Public Service Commission**

**Paul E. Patton**  
**Governor**

October 28, 1999

Carol H. Fraley  
President and CEO  
Grayson R.E.C.C.  
109 Bagby Park  
Grayson, KY 41143

Re: Case No. 99-412  
Filing Deficiencies

Dear Ms. Fraley:

The Commission staff has conducted an initial review of your filing in the above case. This filing is rejected pursuant to 807 KAR 5:001, Section 2, as it is deficient in certain filing requirements. The items listed below are either required to be filed with the application or must be referenced if they are already on file in another case or will be filed at a later date.

Filing deficiencies pursuant to 807 KAR 5:001:

- 1) Section 6(1) Amounts and types of stocks authorized.
- 2) Section 6(2) Amounts and types of stock issued and outstanding.
- 3) Section 6(3) Detail of preference terms of preferred stock.
- 4) Section 6(4) Mortgages
- 5) Section 6(5) Bonds
- 6) Section 6(6) Notes Outstanding
- 7) Section 6(7) Other Indebtedness



- 8) Section 6(8) Rate and amount of dividends paid during the five (5) previous fiscal years and the amount of capital stock on which the dividends were paid each year.
- 9) Section 6(9) Detailed income statement and balance sheet.
- 10) Section 8(3) If applicant is a corporation, a certified copy of the Articles of Incorporation and all amendments thereto or if the articles were filed with the PSC in a prior proceeding, a reference to the style and case number of the prior proceeding.
- 11) KRS 278.300(2) Every financing application shall be made under oath, and shall be signed and filed on behalf of the utility by its president, or by a vice president, auditor, comptroller or other executive officer having knowledge of the matters set forth and duly designated by the utility.
- 12) Section 11(1)(a) Description of applicant's property.
- 13) Section 11(1)(a) Statement of original cost of applicant's property and the cost to the applicant , if different.
- 14) Section 11(2)(b) Copies of all trust deeds or mortgages. if previously filed, state case number.

For your convenience, please find enclosed a copy of our deficiency checklist in which the above-listed deficiencies are highlighted.

The statutory time period in which the Commission must process this case will not commence until the above-mentioned information is filed with the Commission. You are requested to file 10 copies of this information within 15 days of the date of this letter. If you need further information, please contact Isaac Scott of my staff at (502) 564-3940, ext. 444.

Sincerely,



Stephanie Bell  
Secretary of the Commission

sa  
Enclosure





COMMONWEALTH OF KENTUCKY  
**PUBLIC SERVICE COMMISSION**

730 SCHENKEL LANE  
POST OFFICE BOX 615  
FRANKFORT, KY. 40602  
(502) 564-3940

October 5, 1999

Carol H. Fraley  
President and CEO  
Grayson R.E.C.C.  
109 Bagby Park  
Grayson, KY. 41143

RE: Case No. 99-412  
GRAYSON R.E.C.C.  
(Financing)

This letter is to acknowledge receipt of initial application in the above case. The application was date-stamped received September 24, 1999 and has been assigned Case No. 99-412. In all future correspondence or filings in connection with this case, please reference the above case number.

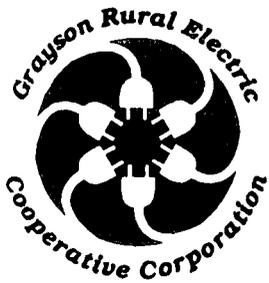
If you need further assistance, please contact my staff at 502/564-3940.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell  
Secretary of the Commission

SB/jc



## Grayson Rural Electric Cooperative Corporation

109 Bagby Park ♦ Grayson, Kentucky 41143-1292  
Telephone: 606-474-5136 ♦ 1-800-562-3532 ♦ Fax: 606-474-5862

September 22, 1999

Ms. Helen C. Helton  
Executive Director  
Kentucky Public Service Commission  
731 Schenkel Lane  
Frankfort, KY 40601

Ms. Helton:

Please find attached Grayson Rural Electric Cooperative Corporation's application for the assumption of securities as required by KRS 278.300.

Feel free to contact me for additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Don M. Combs".

Don M. Combs  
Mgr - Finance & Administration

FILED

DEC 14 1999

PUBLIC SERVICE  
COMMISSION

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PUBLIC SERVICE  
COMMISSION

CASE 99-412

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED  
SEP 24 1999  
PUBLIC SERVICE  
COMMISSION

IN THE MATTER OF:

APPLICATION FOR THE ASSUMPTION  
OF SECURITIES BY GRAYSON RURAL  
COOPERATIVE CORPORATION

CASE NO. 99-412

APPLICATION

Grayson Rural Electric Cooperative Corporation (Grayson) requests authorization to assume debt, in the guaranteeing of financing by local banking institutions of certain electrical appliances (KRS 278.300). Its purpose is to make the purchase of these appliances more attractive by guaranteeing the financing by local banking institutions.

Grayson started the program in 1995, with two (2) banks participating under the following arrangements.

- 1<sup>st</sup> National Bank, Grayson – Grayson is considered a dealer and guarantees each contract in an amount not to exceed \$5,000 for geo-thermal heat pump systems and \$1000 for Electric Thermal Storage (ETS).
- Commercial Bank, Grayson – Grayson is guarantor of contracts of local HVAC dealers with customers in the amount not to exceed \$5,000 for geo-thermal heat pump systems. For ETS units, GRECC is the dealer and guarantees the unpaid portion of the retail cash sale.

The banks are responsible for their own applications, credit investigations, disbursement of funds and collection of payments.

In the event of default, Grayson will purchase the unpaid balance of the contract, demand payment from the consumer and take possession of the equipment for re-sale, if necessary.

Currently, one member has defaulted on their loan agreement. This occurred on 7/30/99 and Grayson has made its initial demand for payment. The unpaid balance on this contract is \$3,260.99.

Exhibits included in this application are as follows:

- Exhibit 1      Guarantee Agreement with First National Bank, Grayson for Electric Thermal Storage Units (ETS).
  
- Exhibit 2      Guarantee Agreement with First National Bank, Grayson for Geo Thermal Heat Pump Systems.
  
- Exhibit 3      Guarantee Agreement with Commercial Bank, Grayson for Electric Thermal Storage Systems.
  
- Exhibit 4      Guarantee Agreement with Commercial Bank, and local dealers, for Geo- Thermal Heat Pump Systems.
  
- Exhibit 5      Loan Activity To Date

Grayson requests that the Public Service Commission approve this application as expeditiously as possible and allow Grayson to resume this program.

Respectfully submitted,

GRAYSON RURAL ELECTRIC  
COOPERATIVE CORPORATION

A handwritten signature in black ink, appearing to read "Carol Hall Fraley". The signature is written in a cursive, flowing style.

CAROL HALL FRALEY  
President & CEO

## GUARANTY AGREEMENT

TO: The Commercial Bank of Grayson, hereinafter Bank  
P. O. Box 7  
Grayson, Kentucky 41143

GRAYSON RECC, 109 Bagby Park, Grayson, Ky. 41143,  
hereinafter Guarantor, hereby requests you to purchase  
conditional sales Contracts, hereinafter Contracts,  
from, or otherwise continue to do business with,

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_, hereinafter Dealer, covering Geo  
Thermal HVAC units that will be supplied with electrical  
power from Guarantor, that may be sold from time to time to  
Dealer's customers, hereinafter Customers, and to induce you  
so to do, at your sole discretion, however, and in  
consideration thereof and of benefits to accrue to each of us  
therefrom, Guarantor, as a primary obligor, unconditionally  
guarantees that Dealer will fully, promptly and faithfully  
perform, pay and discharge all its present and future  
obligations to you in connection with said Contracts and  
agrees, without your first having to proceed against Dealer  
or to liquidate paper or any security therefor, and  
irrespective of any offset or defense available to Dealer, to  
pay on demand all sums due and to become due to you, not to  
exceed \$5,000.00, from Dealer and all losses, costs,  
attorney's fees or expenses which you or they may suffer by

reason of Dealer's default; together with a reasonable attorney's fee (15% if permitted by law) if placed with an attorney for collection. Guarantor hereby subordinates any sums now or hereafter due to him from Dealer to the payment of any sums now or hereafter due you or them from Dealer. Guarantor assigns to you all sums due or to become due to Guarantor from Dealer to the extent of our obligations to you hereunder, and agrees to execute any further instruments necessary to evidence such assignment; Guarantor, as a primary obligor, further unconditionally guarantees that in the event any Contract purchased by the Bank becomes more than two (2) payments in arrears of the required payment, or in the event of default by the Customer of any of the Customer's obligations under the Contract, Guarantor will promptly purchase the unpaid balance of the Contract, less applicable rebates, from Bank, up to a maximum amount of \$5,000.00 per Contract. This guaranty may be terminated only by notice sent to you by registered mail, stating an effective date of termination not less than three days after receipt of such notice by you, but shall nevertheless continue thereafter to any transaction with and obligation of Dealer incurred prior to the effective date of termination. Guarantor waives notice of acceptance hereof and of presentment, demand, protest and notice of non-payment or protest in relation to any Contracts signed, accepted, endorsed, or assigned to you by Dealer, all exemptions and homestead laws, any other demands notices.

required by law and all set-offs and counterclaims. You may renew, extend or transfer any obligations of Dealer or its Customers or of co-guarantors, may accept partial payments thereon or settle, release, by operation of law or otherwise, compound, compromise, collect or otherwise liquidate any obligation or security therefor in any manner and bid and purchase at any sale without affecting the obligation of Guarantor hereunder. This agreement constitutes the guaranty of payment and performance of the Guarantor signing this instrument.

It is expressly agreed and understood that Dealer's name may be affixed to notes, Contracts, and other obligations by the signature of \_\_\_\_\_ or of \_\_\_\_\_ and when so affixed, shall be binding both for Dealer and binding on Guarantor as set out hereinabove. It is a further condition of this guarantee that prior to disbursement of funds by you to Dealer, Guarantor must provide you with a Certificate of Compliance and an individual Guaranty Agreement signed by either Carol Ann Fraley, Manager of Guarantor, or Joan Litteral, Payroll/Bookkeeper of Guarantor, or Sherry Buckler, Accountant/Bookkeeper of Guarantor.

This instrument shall bind Guarantor's successors and assigns, and shall inure to the benefit of your subsidiaries, affiliates, successors and assigns. All of your and their rights are cumulative and not alternative.

Witness our hand(s) this 7<sup>th</sup> day of July, 1997.

Secretary/Witness

GRAYSON RECC, GUARANTOR

John Littoral

By Carol Hill Dille  
(Title) President + CEO

THE COMMERCIAL BANK OF GRAYSON  
RETAIL CONSUMER DEALER AGREEMENT

THIS AGREEMENT entered into this 20<sup>th</sup> day of October 1997, by and between Grayson Rural Electric Cooperative of 109 Bagby Park, Grayson, Kentucky, hereinafter Dealer, and THE COMMERCIAL BANK OF GRAYSON, P. O. Box 7, Grayson, Kentucky 41143, hereinafter Bank.

WITNESSETH:

WHEREAS, the Dealer sells retail consumer goods whereby unpaid portions of the retail cash sales price are payable in equal monthly installments secured by a Security Interest in such goods and a Promissory Note executed by the Customer, hereinafter Contracts, and,

WHEREAS, the Bank finances purchases of consumer goods under the circumstances described above;

NOW THEREFORE, in consideration of the mutual terms, covenants and conditions set out below, the Dealer and Bank agree as follows:

1.) SALE OF CONTRACTS. The Bank will purchase such Contracts as are acceptable to the Bank from the Dealer for the duration of this agreement, based on written customer loan applications provided Bank by Dealer. Contracts will be assigned to Bank by the signature of Carol Ann Fraley, Manager of Dealer, Joan Litteral, Payroll/Bookkeeper of Dealer, or Sherry Buckler, Accountant/Bookkeeper of Dealer and shall be purchased on a "Recourse" basis.

2.) PURCHASE PRICE. The Bank shall pay to the Dealer on each Contract purchased by the Bank a sum equal to the unpaid retail cash price of the goods covered by such Contract.

3.) INTEREST RATES AND TERMS. Contract interest rates will be at Bank's current rate for this type loan. The rates in effect at the time of this agreement are as per exhibit "A" hereto.

4.) NOTIFICATION. The Dealer shall notify the customer of any Contract purchased by the Bank that all future installment payments required by the Contract shall be made directly to the Bank. The Bank's purchase of a Contract after execution of this agreement shall be sufficient notice to the Dealer that the Contract is accepted by the Bank subject to the terms of this agreement.

5.) TERMINATION. This Agreement may be terminated by either party by giving thirty (30) days written notice to the other, but such termination shall in no way affect this agreement in regard to Contracts previously purchased from the Dealer by the Bank.

6.) GUARANTEE AND DEFAULT IN CONTRACTS. In the event any Contract purchased by the Bank becomes more than two (2) payments in arrears of the required payment or in the event of default by the Customer of any of the Customer's obligations under the Contract, Dealer will promptly purchase the unpaid balance of the Contract, less applicable rebates, from Bank.

7.) Defective Goods. In the event the Customer notifies the Bank of any defect in a consumer good covered by a Contract purchased under this Agreement, and asserts or threatens to assert this defect as a claim or defense against the Bank, or in the event the Customer rescinds or threatens to rescind a Contract purchased under this Agreement, Dealer will promptly repurchase the Contract from Bank for the then outstanding balance, less applicable rebates, and the Contract will be returned to the Dealer.

8.) WARRANTIES BY DEALER. The Dealer warrants to the Bank that on all Contracts purchased by the Bank that the Contracts are valid, enforceable legal instruments, complying in all respects with the applicable laws and regulations, that goods sold under the Contracts are accurately described therein and were free from all encumbrances, that the Dealer had legal title to such goods and the right to sell same, that the Contracts are not subject to any dispute, set-off or counter-claim and are true and correct in all respects, that the Customers purchasing the described goods are bonafide with legal capacity to execute the Contract, that the Contracts have been properly executed, negotiated and assigned by the Dealer and the goods covered by the Contract have been delivered and satisfactorily installed.

9.) INDEMNITY. It is understood and agreed by the Dealer that it will indemnify and hold harmless the Bank for any and all judgements, claims, demands, costs and attorney fees paid or incurred by the Bank as a result of any Contract

purchased by the Bank under this Agreement.

10.) FAILURE TO EXERCISE RIGHTS. Bank's failure to exercise any right under this Agreement shall not operate as a waiver of that or any other right of Bank.

11.) AMENDMENT. This Agreement may be altered or amended only upon written agreement of both the Dealer and Bank.

12.) ASSIGNMENT. No portion of this Agreement may be assigned or transferred in any way by the Dealer without prior written consent of the Bank.

13.) BINDER AND PARTIES. If this Agreement is executed by a corporation or partnership, the undersigned officers or partners represent and certify that they have been duly authorized by the Board of Directors or partnership to execute this Agreement. This Agreement shall be binding on the heirs, personal representatives and successors in interest of both parties hereto.

DEALER:

Grayson Rural Electric Cooperative

By: [Signature]  
TITLE: General Manager

ATTEST:

[Signature]  
Secretary/Witness

BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_

ATTEST:

[Signature]  
Secretary/Witness

THE COMMERCIAL BANK OF GRAYSON

BY: [Signature]  
TITLE: President & CEO

EXHIBIT "A" TO  
DEALER AGREEMENT

BETWEEN

THE COMMERCIAL BANK OF GRAYSON

AND

GRAYSON RECC

Interest Rates and Terms on Dealer Contracts

Effective Date October 13, 1997

Rate: 8.50% for 36 months on ETS units.



**DEALER AGREEMENT**

**DEALER**                    **Grayson Rural Electric Cooperative Corporation,  
109 Bagby Park  
Grayson, KY 41143**

and

**LENDER**                    **First National Bank of Grayson  
P.O. Box 67  
Grayson, KY 41143**

agree:

**1. REPRESENTATIONS, WARRANTIES, AGREEMENTS.** In consideration of the purchase by Lender of such Instruments as are acceptable to Lender from time to time, Dealer represents, warrants, and agrees as set out in this Agreement; and if there is any misrepresentation, breach or possible breach of warranty, or failure to perform an agreement, the same shall be considered a default at the option of the Lender. All of the terms and conditions of this Agreement apply to all Instruments that have been transacted by Dealer prior to this Agreement and to any future transactions.

- a. Instrument is defined to include floor plan arrangements, notes, accounts, conditional sales contracts, mortgages, security agreements, leases, other written agreements, and other obligations.
- b. Dealer unconditionally guarantees prompt payment and performance of such Instruments and each representation, warranty, and agreement in this Agreement. If there is any default in connection with any such Instrument or under this Agreement, the same shall be considered a default by Dealer at the option of the Lender. If the purchase of an Instrument is without recourse by Lender against Dealer, then Dealer shall not be liable for the failure of a Purchaser to pay the Instrument or perform the other terms of the Instrument, however, such Dealer shall be liable for any other default under this Agreement at the option of the Lender.
- c. Instruments will represent an original bona fide sale and delivery to the purchasers named therein, with their correct addresses, and free from any defense, set-off, or counterclaim of any nature. Instruments will be genuine and legally valid and enforceable against purchasers and other parties to them, and in all respects what they purport to be. Instruments will comply with all State and Federal Truth in Lending, Consumer Credit and Protection, and all other applicable law, regulations, and rules; and Dealer will promptly correct any situation or warranty which gives any party to an Instrument a defense against Lender.

- 10-000 41470021 SEP 03 99 9.00 NO.000 F.03
- e. Dealer is not an agent for Lender and shall not act as such. In the event Dealer receives any funds (or any papers or property) due Lender from any source, Dealer will remit them to Lender forthwith, and failure to do so shall constitute a default under this Agreement. Lender shall in no manner whatever be responsible for the legal validity or sufficiency of any forms of Instruments or other documents which Lender may furnish to Dealer.
  - f. If there is any default by Dealer under this Agreement or in connection with any Instrument, Dealer will, upon demand, repurchase any or all such Instruments and pay Lender an amount equal to the payoff balance (which is the total unpaid balance, including interest and other charges, together with costs and expenses incurred by Lender in respect there to, less unearned interest and charges, if any, computed in accordance with Lender's standard refund schedule). If Dealer fails to repurchase an Instrument within ten (10) days after demand, Lender may sell such Instrument by sale at public or private sale of ten (10) days' notice or such notice as may be required by law and the net proceeds of sale shall be applied against the payoff balance on the Instrument. Dealer will promptly pay any deficiency and be entitled to any net surplus. If any claim against Dealer is referred to an attorney, then Dealer will pay all reasonable attorney's fees not to exceed 15% of the amount due on the Instrument.
  - g. In the event of a repossession of any item sold by Dealer, then the Dealer will without charge furnish equipment and men to assist Lender in the repossession and storage until the item is sold.
  - h. Dealer waives notice of non-payment, protect, notice of protect, notice of the acceptance of this Agreement, all other notices, and all legal diligences to which Dealer would otherwise be entitled by law. Lender's failure to exercise any right under this Agreement shall not operate as a waiver of that or any other right of Lender. No waiver, modification or change of this Agreement shall be valid unless accepted by Lender in writing, signed by a corporate officer.

2. **Parties.** If this Agreement is executed by a corporation or partnership, the undersigned officers or partners represent and certify that they have been duly authorized by the Board of Directors or partnership to execute this Agreement. This Agreement shall be binding upon the heirs, personal representatives, successors and assigns of all the parties, and shall also be for the benefit of any of the Lender's associated, affiliated and subsidiary companies which may enter into any agreement with Dealer or acquire any such Instrument.

3. **Power of Attorney.** The Dealer appoints the Lender, and its authorized agents, with power to appoint substitute attorneys, as the Dealer's Attorneys-in-Fact and authorized any Attorney-in-Fact for and in the name of Dealer to take any action the Dealer could take as to any Instrument in which Lender has any interest or right under the Instrument or this Agreement, including bringing and prosecuting court actions. The Dealer hereby ratifies and confirms all acts and things done by the Attorney-in-Fact or his substitutes in pursuance of the authority herein granted.

4. **Guaranty Agreement.** For valuable consideration received by Guarantor, and in order to induce Lender to purchase or otherwise acquire Instruments, bearing the signature of Dealer as maker, endorser, guarantor, acceptor, assignor, or in any other capacity, Guarantor severally and jointly guarantees Lender ( and its associated, affiliated and subsidiary companies) the full and prompt performance and payment of all obligations of Dealer under all such Instruments, this Agreement, and all agreements of Dealer with Lender now in force or hereafter made. In the event of any default by Dealer, Guarantor will pay and perform the Dealer's obligations without any proceeding being taken against Dealer or any other party by Lender. If any claim against Guarantor is referred to any attorney, then Guarantor will pay all reasonable attorney's fees not to exceed 15% of the amount due on the Instrument.

Guarantor waives notice of acceptance of this Guaranty, all other notice to which Guarantor is entitled by law, presentment, protest, demand, notice of protest and demand, all legal diligences as to all Instruments and agreements, all rights to extension, composition or otherwise under the Bankruptcy Act or any state or federal law. Lender may, without the consent of the Guarantor and without notice to Guarantor, compound, compromise and adjust any claim against any or all of the Dealer or other parties named in any Instrument, or grant any indulgence to any or all of them, without affecting the obligation of the Guarantor.

5. **Termination.** The undersigned, or any of them, may terminate this Agreement as to future transactions by written notice delivered to the other parties, but such termination shall not affect obligations, contingent or absolute, existing or incurred prior to the date of receipt of such notice, nor affect the continuing obligations hereunder of such of the others who shall not have given such notice of termination.

6. **Other Terms:**

a. All contracts will be purchased from Dealer with recourse. Dealer will guarantee Lender against loss on each individual contract for an amount not to exceed \$1,000.00.

b. 100% advance of amount to finance of each contract to be advanced to Seller/Installer as per written instructions of Dealer.

c. Lender reserves the right to approve or disapprove each contract.

- d. Lender will finance up to 100% of total selling price.
- e. Maximum terms to be as follows:  
Electric Thermal Storage Units  
Interest Rate 12.5 %  
Term 48 Months or Less
- f. Dealer will complete a credit application on each applicant.
- g. Each applicant must be of legal age to enter into a binding contract.
- h. Notes will be Lender's standard retail credit contract endorsed by Dealer with the maximum recourse of \$1,000.00 per contract.
- i. Dealer will promptly pay to Lender within 30 days of Lender's demand on any defaulted contract subject to the maximum guaranty.
- j. Dealer will furnish Lender with a Corporate Resolution from its Board of Directors authorizing this agreement.
- k. Upon default, Lender may attempt to repossess as much of the collateral, as it in its discretion, is reasonably possible. Any failure on the part of the Lender to effectively repossess said collateral will not be a default of this agreement nor will it cause Dealer to be excused from its guaranty.
- l. Lender will promptly notify Dealer of delinquencies of Purchaser's in the same manner as Lender's delinquent notice policy.

**7. Supplements and Exceptions.** All of the foregoing are subject to the following supplements and exceptions:

- a. Dealer Guarantees and will hold Bank harmless from any claims buyer may have incurred against dealer whether contracts assigned to the Bank.
- b. All contracts must have the credit approval by a bank officer.
- c. The Dealer will furnish the Bank with an annual Financial Statement.

IN WITNESS of all the foregoing, the undersigned parties have executed this Agreement as of 13 day of Oct, 1997.

"GUARANTORS"

Court Hill Tralty  
10/13/97

"DEALERS"

By: Court Hill Tralty  
10/13/97

"LENDER"

FIRST NATIONAL BANK OF GRAYSON

BY: Willis H. Kelley, Sr.

ATTESTED BY Dianmarck Phillips A.V.P.

ACKNOWLEDGMENT:

COMMONWEALTH OF KENTUCKY  
COUNTY OF CARTER, TO WIT:

The foregoing instrument was acknowledged before me, the undersigned authority, this 14<sup>th</sup> day of October, 1997, by Willis H. Kelley as Sr Vice President and by Dianmarck Phillips as Asst Vice President of GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION, Dealer.

My commission expires 2-14-99.  
E. Regina Moreland  
Notary Public, State at Large, Kentucky



COMMONWEALTH OF KENTUCKY  
COUNTY OF CARTER, TO WIT:

The foregoing instrument was acknowledged before me, the undersigned authority, this 13 day of October, 1997, by \_\_\_\_\_ as \_\_\_\_\_, and by Carol Hall Fraker as President & CEO of GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION, Dealer.

My commission expires August 23, 2000.  
Bonita Beahart  
Notary Public, State at Large, Kentucky

(seal)

COMMONWEALTH OF KENTUCKY  
COUNTY OF CARTER, TO WIT:

The foregoing instrument was acknowledged before me, the undersigned authority this 14<sup>th</sup> day of October, 1997 by William H. Kelley as Sr Vice President and attested by Diamond Phillips as Asst. Vice President of First National Bank of Grayson, a National Banking Corporation, Lender.

My commission expires 2-14-99.  
E. Regina Moreland  
Notary Public, State at Large, Kentucky

(seal)



GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION

EXCERPT COPY OF MINUTES

The Commercial Bank of Grayson has approached the Cooperative about a finance program for ETS Units and High Efficiency Air to Air Heat Pumps. The Cooperative would be responsible for approximately \$1200.00 on the ETS Units. Motion was made by Director Trent, second by Director Easterling and unanimously agreed to participate in these programs. Mr. Combs will check with the other banks that we do business with and see if they want to participate.

I, Carol Hall Fraley, certify that I am the President & CEO of Grayson Rural Electric Cooperative Corporation and that the above and foregoing is a true excerpt from the minutes of a regular meeting of the Board of Directors of Grayson Rural Electric Cooperative Corporation held on the 22<sup>nd</sup> day of August, 1997, at which meeting a quorum was present. The above portion of the minutes has not been modified or rescinded.

  
Carol Hall Fraley, President & CEO



**DEALER AGREEMENT**

DEALER                    **Grayson Rural Electric Cooperative Corporation, and**  
                                  **109 Bagby Park**  
                                  **Grayson, KY 41143**

LENDER                    **First National Bank of Grayson**  
                                  **P.O. Box 67**  
                                  **Grayson, KY 41143**

agree:

i.     **REPRESENTATIONS, WARRANTIES, AGREEMENTS.**     In consideration of the purchase by Lender of such Instruments as are acceptable to Lender from time to time, Dealer represents, warrants, and agrees as set out in this Agreement; and if there is any misrepresentation, breach or possible breach of warranty, or failure to perform an agreement, the same shall be considered a default at the option of the Lender. All of the terms and conditions of this Agreement apply to all Instruments that have been transacted by Dealer prior to this Agreement and to any future transactions.

a.     Instrument is defined to include floor plan arrangements, notes, accounts, conditional sales contracts, mortgages, security agreements, leases, other written agreements, and other obligations.

b.     Dealer unconditionally guarantees prompt payment and performance of such Instruments and each representation, warranty, and agreement in this Agreement. If there is any default in connection with any such Instrument or under this Agreement, the same shall be considered a default by Dealer at the option of the Lender. If the purchase of an Instrument is without recourse by Lender against Dealer, then Dealer shall not be liable for the failure of a Purchaser to pay the Instrument or perform the other terms of the Instrument, however, such Dealer shall be liable for any other default under this Agreement at the option of the Lender.

c.     Instruments will represent an original bona fide sale and delivery to the purchasers named therein, with their correct addresses, and free from any defense, set-off, or counterclaim of any nature. Instruments will be genuine and legally valid and enforceable against purchasers and other parties to them, and in all respects what they purport to be. Instruments will comply with all State and Federal Truth in Lending, Consumer Credit and Protection, and all other applicable law, regulations, and rules; and Dealer will promptly correct any situation or warranty which gives any party to an Instrument a defense against Lender.

e. Dealer is not an agent for Lender and shall not act as such. In the event Dealer receives any funds (or any papers or property) due Lender from any source, Dealer will remit them to Lender forthwith, and failure to do so shall constitute a default under this Agreement. Lender shall in no manner whatever be responsible for the legal validity or sufficiency of any forms of Instruments or other documents which Lender may furnish to Dealer.

f. If there is any default by Dealer under this Agreement or in connection with any Instrument, Dealer will, upon demand, repurchase any or all such Instruments and pay Lender an amount equal to the payoff balance (which is the total unpaid balance, including interest and other charges, together with costs and expenses incurred by Lender in respect there to, less unearned interest and charges, if any, computed in accordance with Lender's standard refund schedule). If Dealer fails to repurchase an Instrument within ten (10) days after demand, Lender may sell such Instrument by sale at public or private sale of ten (10) days' notice or such notice as may be required by law and the net proceeds of sale shall be applied against the payoff balance on the Instrument. Dealer will promptly pay any deficiency and be entitled to any net surplus. If any claim against Dealer is referred to an attorney, then Dealer will pay all reasonable attorney's fees not to exceed 15% of the amount due on the Instrument, provided attorney is not a salaried employee of Lender.

g. In the event of a repossession of any item sold by Dealer, then the Dealer will without charge furnish equipment and men to assist Lender in the repossession and storage until the item is sold.

h. Dealer waives notice of non-payment, protest, notice of protest, notice of the acceptance of this Agreement, all other notices, and all legal diligences to which Dealer would otherwise be entitled by law. Lender's failure to exercise any right under this Agreement shall not operate as a waiver of that or any other right of Lender. No waiver, modification or change of this Agreement shall be valid unless accepted by Lender in writing, signed by a corporate officer.

2. **Parties.** If this Agreement is executed by a corporation or partnership, the undersigned officers or partners represent and certify that they have been duly authorized by the Board of Directors or partnership to execute this Agreement. This Agreement shall be binding upon the heirs, personal representatives, successors and assigns of all the parties, and shall also be for the benefit of any of the Lender's associated, affiliated and subsidiary companies which may enter into any agreement with Dealer or acquire any such Instrument.

3. **Power of Attorney.** The Dealer appoints the Lender, and its authorized agents, with power to appoint substitute attorneys, as the Dealer's Attorneys-in-Fact and authorized any Attorney-in-Fact for and in the name of Dealer to take any action the Dealer could take as to any Instrument in which Lender has any interest or right under the Instrument or this Agreement, including bringing and prosecuting court actions. The Dealer hereby ratifies and confirms all acts and things done by the Attorney-in-Fact or his substitutes in pursuance of the authority herein granted.

4. **Guaranty Agreement.** For valuable consideration received by Guarantor, and in order to induce Lender to purchase or otherwise acquire Instruments, bearing the signature of Dealer as maker, endorser, guarantor, acceptor, assignor, or in any other capacity, Guarantor severally and jointly guarantees Lender ( and its associated, affiliated and subsidiary companies) the full and prompt performance and payment of all obligations of Dealer under all such Instruments, this Agreement, and all agreements of Dealer with Lender now in force or hereafter made. In the event of any default by Dealer, Guarantor will pay and perform the Dealer's obligations without any proceeding being taken against Dealer or any other party by Lender. If any claim against Guarantor is referred to any attorney, then Guarantor will pay all reasonable attorney's fees not to exceed 15% of the amount due on the Instrument, provided attorney is not a salaried employee of Lender.

Guarantor waives notice of acceptance of this Guaranty, all other notice to which Guarantor is entitled by law, presentment, protest, demand, notice of protest and demand, all legal diligences as to all Instruments and agreements, all rights to extension, composition or otherwise under the Bankruptcy Act or any state or federal law. Lender may, without the consent of the Guarantor and without notice to Guarantor, compound, compromise and adjust any claim against any or all of the Dealer or other parties named in any Instrument, or grant any indulgence to any or all of them, without affecting the obligation of the Guarantor.

5. **Termination.** The undersigned, or any of them, may terminate this Agreement as to future transactions by written notice delivered to the other parties, but such termination shall not affect obligations, contingent or absolute, existing or incurred prior to the date of receipt of such notice, nor affect the continuing obligations hereunder of such of the others who shall not have given such notice of termination.

6. **Other Terms:**

- a. All contracts will be purchased from Dealer with recourse. Dealer will guarantee Lender against loss on each individual contract for an amount not to exceed \$5,000.00.
- b. 100% advance on unpaid balance of cash price of each contract to be advanced to Seller/Installer as per written instructions of Dealer.
- c. Lender reserves the right to approve or disapprove each contract.

- d. Lender will finance up to 100% of total selling price.
- e. Maximum terms to be as follows:
  - Ultra High Efficiency Geo Thermal Heat Pumps
  - Interest Rate 7.99% Term 60 Months or Less
  - 8.99% Term 61 to 120 Months
- f. Dealer will complete a credit application, as supplied by Lender, on each applicant.
- g. Each applicant must be of legal age to enter into a binding contract.
- h. Notes will be Lender's standard retail credit contract endorsed by Dealer with the maximum recourse of \$5,000.00 per contract.
- i. Dealer will promptly pay to Lender within 30 days of Lender's demand on any defaulted contract subject to the maximum guaranty.
- j. Dealer will furnish Lender with a Corporate Resolution from its Board of Directors authorizing this agreement.
- k. Upon default, Lender may attempt to repossess as much of the collateral, as it in its discretion, is reasonably possible. Any failure on the part of Lender to effectively repossess said collateral will not be a default of this agreement nor will it cause Dealer to be excused from its guaranty.
- l. Lender will promptly notify Dealer of delinquencies of Purchaser's in the same manner as Lender's delinquent notice policy.

7. **Supplements and Exceptions.** All of the foregoing are subject to the following supplements and exceptions:

- a. Dealer Guarantees and will hold Bank harmless from any claims buyer may have incurred against Dealer.
- b. All contracts must have the credit approval by a bank officer.
- c. The Dealer will furnish the Bank with an annual Financial Statement.

IN WITNESS of all the foregoing, the undersigned parties have executed this Agreement as of the 15<sup>th</sup> day of August, 1995.

"GUARANTORS"

James Bryson  
Roger L. Trent

"DEALER"

By: James Bryson  
Roger L. Trent

"LENDER"

FIRST NATIONAL BANK OF GRAYSON

BY William F. Kelley  
Vice President & S.L.O.

Attest Paulette L. Parker  
Vice President

ACKNOWLEDGMENT:

COMMONWEALTH OF KENTUCKY  
COUNTY OF CARTER, TO-WIT:

The foregoing instrument was acknowledged before me, the undersigned authority, this 25 day of August, 1995, by JAMES BRYSON as CHAIRMAN, and attested by ROGER TRENT as SECRETARY of GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION, Dealer.

My commission expires 12-11-95.

Michelle Mullins  
Notary Public, State at Large, Kentucky

COMMONWEALTH OF KENTUCKY  
COUNTY OF CARTER, TO-WIT:

The foregoing instrument was acknowledged before me, the undersigned authority, this 25 day of August, 1995, by JAMES BRYSON, as CHAIRMAN, and ROGER TRENT, as SECRETARY of GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION, Guarantor.

My commission expires 12-11-95.

Michelle Mullins  
Notary Public, State at Large, Kentucky

COMMONWEALTH OF KENTUCKY  
COUNTY OF CARTER, TO-WIT:

The foregoing instrument was acknowledged before me, the undersigned authority, this 15 day of August, 1995 by Willis H. Kelley as Vice President and Sr. Loan Officer and attested by Paulette L. Parker as Vice President of First National Bank of Grayson, a National Banking Corporation, Lender.

My commission expires 01-13-97.

Rebecca L. Justice  
Notary Public, State at Large, Kentucky



Loans Guaranteed

by

Grayson Rural Electric Cooperative Corporation

DATE	Bank	NAME	AMOUNT	TERM	BALANCE	STATUS
Dec-95	Commercial	ANGLIN	\$6,150.00	60 mos.	\$1,872.90	CURRENT
Mar-96	1st National	RHODEN	\$9,202.80	60 mos.	\$2,760.64	CURRENT
Aug-96	1st National	RUCKER	\$6,075.98	58 mos.	\$3,260.99	DEFAULTED
Oct-96	1st National	ADKINS	\$9,483.00	60 mos.	\$0.00	PAID
Dec-96	1st National	HORTON	\$9,467.00	60 mos.	\$4,935.19	DUE 9/11/99
Dec-96	1st National	GIFFORD	\$6,267.00	60 mos.	\$3,254.11	CURRENT
Dec-96	Commercial	KIMMEL	\$10,500.00	120 mos.	\$8,574.96	CURRENT
Jun-97	1st National	GOSE	\$12,003.00	60 mos.	\$6,801.70	CURRENT
Jun-97	1st National	KEGLEY	\$6,033.00	60 mos.	\$3,610.09	CURRENT
Jul-97	1st National	KITCHEN	\$10,711.20	60 mos.	\$6,239.20	CURRENT
Aug-97	Commercial	MAYO	\$14,625.00	60 mos.	\$10,813.95	CURRENT
Sep-97	1st National	ONEY	\$9,066.00	60 mos.	\$5,288.50	CURRENT
Oct-97	1st National	SKAGGS	\$1,374.48	24 mos	\$114.54	DUE 9/14/99
Oct-97	1st National	JAMES	\$8,155.20	60 mos.	\$5,164.96	CURRENT
Oct-97	1st National	BENTLEY	\$1,190.16	24 mos	\$99.18	CURRENT
Dec-97	Commercial	PENNINGTON	\$9,750.00	60 mos.	\$8,238.80	CURRENT
Apr-98	Commercial	PORTER	\$8,100.00	60 mos.	\$8,238.80	CURRENT
Aug-98	Commercial	CROOKS	\$6,250.50	120 mos.	\$5,838.50	CURRENT
Sep-98	1st National	BURTON	\$10,861.20	60 mos.	\$8,869.98	CURRENT
Oct-98	1st National	TACKETT	\$4,869.56	60 mos.	\$4,392.76	DUE 7/12/99
Nov-98	1st National	RAMEY	\$11,432.49	120 mos.	\$10,810.37	CURRENT
Dec-98	1st National	PORTER	\$15,556.20	120 mos.	\$14,926.06	CURRENT
Apr-99	1st National	ROE	\$1,254.00	18 mos	\$989.10	CURRENT
<b>Sep-99</b>		<b>TOTAL</b>	<b>\$187,123.77</b>		<b>\$125,095.28</b>	

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Hon. C Kent Hatfield of  
Henry Alford

2. Article Number (Copy from service label)

4404

PS Form 3811, July 1999 SA Domestic Return Receipt 99-218

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery

[Signature] 2/5/01

C. Signature

X [Signature]  Agent  
 Addressee

D. Is delivery address different from item 1?  Yes  
If YES, enter delivery address below:  No

3. Service Type

Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

7000 1670 0000 1679 4777

**U.S. Postal Service  
CERTIFIED MAIL RECEIPT**  
(Domestic Mail Only; No Insurance Coverage Provided)

SA 99-218 Postage	\$ .33	
Certified Fee	1.40	
Return Receipt Fee (Endorsement Required)	1.25	
Restricted Delivery Fee (Endorsement Required)		
<b>Total Postage &amp; Fees</b>	<b>\$ 2.98</b>	

Recipient's Name (Please Print Clearly) (to be completed by mailer)

Hon C Kent Hatfield/Henry Alford

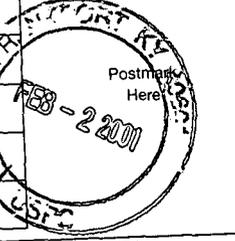
Street, Apt. No., or PO Box No.  
255 Brown & Williamson Tower

City, State, ZIP+4  
Covington Ky 40202-3410

PS Form 3811, February 2000 See Reverse for Instructions

7000 1670 0000 1679 4374

**U.S. Postal Service  
CERTIFIED MAIL RECEIPT**  
(Domestic Mail Only; No Insurance Coverage Provided)

SA 99-218 Postage	\$ .33	
Certified Fee	1.40	
Return Receipt Fee (Endorsement Required)	1.25	
Restricted Delivery Fee (Endorsement Required)		
<b>Total Postage &amp; Fees</b>	<b>\$ 2.98</b>	

Recipient's Name (Please Print Clearly) (to be completed by mailer)

Mary Jo PEED BELL SOUTH

Street, Apt. No., or PO Box No.  
675 West Peachtree St, NE

City, State, ZIP+4  
Atlanta GA 30375

PS Form 3811, February 2000 See Reverse for Instructions

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mary Jo PEED

2. Article Number (Copy from service label)

4374

PS Form 3811, July 1999 SA Domestic Return Receipt 99-218

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery

LINDA CODY 2/5/01

C. Signature

X [Signature]  Agent  
 Addressee

D. Is delivery address different from item 1?  Yes  
If YES, enter delivery address below:  No

3. Service Type

Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

PS Form 3811, February 2000 See Reverse for Instructions

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

*Bruce Holdridge*

2. Article Number (Copy from service label)

*4381*

PS Form 3811, July 1999

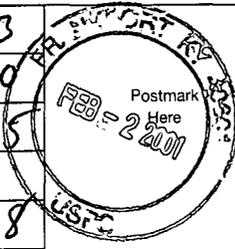
Domestic Return Receipt

102595-99-M-1789

*SA 99-218*

**U.S. Postal Service  
CERTIFIED MAIL RECEIPT  
(Domestic Mail Only; No Insurance Coverage Provided)**

Postage	\$ .33
Certified Fee	1.40
Return Receipt Fee (Endorsement Required)	1.25
Restricted Delivery Fee (Endorsement Required)	
<b>Total Postage &amp; Fees</b>	<b>\$ 2.98</b>



Recipient's Name (Please Print Clearly) (to be completed by mailer)  
*Bruce Holdridge* (CG Conn)  
 Street, Apt. No., or PO Box No.  
*180 Grand Av. SUITE 1000*  
 City, State, ZIP+4  
*Oakland CA 94612*

**U.S. Postal Service  
CERTIFIED MAIL RECEIPT  
(Domestic Mail Only; No Insurance Coverage Provided)**

Postage	\$ .33
Certified Fee	1.40
Return Receipt Fee (Endorsement Required)	1.25
Restricted Delivery Fee (Endorsement Required)	
<b>Total Postage &amp; Fees</b>	<b>\$ 2.98</b>



Recipient's Name (Please Print Clearly) (to be completed by mailer)  
*Hon. Creighton E. Merdun* *Bill Smith*  
 Street, Apt. No., or PO Box No.  
*PO BOX 32410*  
 City, State, ZIP+4  
*Covington Ky 40231*

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

*Hon. Creighton E. Merdun*

2. Article Number (Copy from service label)

*4367*

PS Form 3811, July 1999

Domestic Return Receipt

102595-99-M-1789

*SA 99-218*

**COMPLETE THIS SECTION ON DELIVERY**

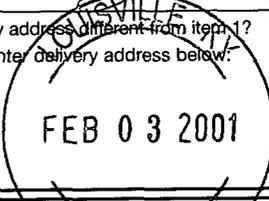
A. Received by (Please Print Clearly) *Brandon Byard* B. Date of Delivery *2-6-01*

C. Signature *[Signature]*  Agent  Addressee

D. Is delivery address different from item 1?  Yes  No  
 If YES, enter delivery address below:

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes



**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

ALBERT H KRAMER &  
MICHAEL CAROWITZ

2. Article Number (Copy from service label)

4398

PS Form 3811, July 1999

Domestic Return Receipt

102595-99-M-1789

SA 99-218

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly)

B. Date of Delivery

2-5-01

C. Signature

x Bryan Queen

Agent

Addressee

D. Is delivery address different from item 1?

Yes

If YES, enter delivery address below:

No

3. Service Type

Certified Mail  Express Mail

Registered  Return Receipt for Merchandise

Insured Mail  C.O.D.

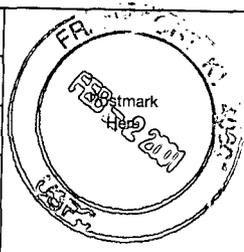
4. Restricted Delivery? (Extra Fee)

Yes

**U.S. Postal Service  
CERTIFIED MAIL RECEIPT**  
(Domestic Mail Only; No Insurance Coverage Provided)

7000 1670 0000 0000 0000 0000 0000 0000

SA 99-218	Postage	\$	.33
	Certified Fee		1.40
	Return Receipt Fee (Endorsement Required)		1.25
	Restricted Delivery Fee (Endorsement Required)		
	<b>Total Postage &amp; Fees</b>	<b>\$</b>	<b>2.98</b>



Recipient's Name (Please Print Clearly) (to be completed by mailer)  
 Albert Kramer & Michael Carowitz  
 Street, Apt. No. or PO Box No.  
 2101 E St NW  
 City, State, ZIP+4  
 Washington DC 20037 1526

PS Form 3800, February 2000

See Reverse for Instructions